

**DRAFT**  
**1999 NAIC Life Risk-Based Capital Report**

**Including**  
**Instructions for C-3**



**as of December 31, 2000**

**Confidential**  
**when Completed**

***NAIC***

**National Association**  
**of Insurance Commissioners**

## INTEREST RATE RISK

LR022

### *Basis of Factors*

The interest rate risk is the risk of losses due to changes in interest rate levels. The factors chosen represent the surplus necessary to provide for a lack of synchronization of asset and liability cash flows.

### Companies Not Filing a Section 8 Actuarial Opinion

The impact of interest rate changes will be greatest on those products where the guarantees are most in favor of the policyholder and where the policyholder is most likely to be responsive to changes in interest rates. Therefore, the baseline risk categories vary by withdrawal provision. Factors for each risk category were developed based on the assumption of well matched asset and liability durations. A loading of 50 percent was then added on to represent the extra risk of less well matched portfolios.

The risk categories are:

#### (a) Low Risk Category

The basic risk-based capital developed for annuities in the low risk category was based on an assumed asset/liability duration mismatch of 0.125 (i.e., a well matched portfolio). This durational gap was combined with a possible 4 percent one-year swing in interest rates (the maximum historical interest rate swing 95 percent of the time) to produce a factor of 0.0050. In addition to the 50 percent loading discussed above, the risk-based capital factor is 0.0075.

With the introduction of variable policy loan interest rates, life insurance has also assumed a low risk potential and is included in the calculation.

#### (b) Medium and High Risk Category

The factors for the medium and high risk categories were determined by measuring the value of the additional risk from the more discretionary withdrawal provisions based on assumptions of policyholder behavior and 1000 random interest rate scenarios. Supplementary contracts not involving life contingencies (SCNI) and dividend accumulations are included in the medium risk category due to the historical tendency of these policyholders to be relatively insensitive to interest rate changes.

Consideration is also needed for products with credited rates tied to an index as the risk of synchronization of asset and liability cash flows is tied not only to changes in interest rates but also to changes in the underlying index. In particular, equity-indexed products have recently grown in popularity with many new product variations evolving. The same C-3 factors are to be applied for equity-indexed products as for their non-indexed counterparts, i.e., based on guaranteed values ignoring those related to the index.

### Companies Filing a Section 8 Actuarial Opinion

Companies, which submit an unqualified Section 8 opinion under the revised Standard Valuation Law, are eligible for a credit of one-third of the RBC above.

In addition, any company with a Section 8 opinion may have to calculate part of their RBC under a different method. Because of widespread use of increasingly well disciplined scenario testing for Section 8 Actuarial Opinion Asset Adequacy Analysis involving Cash Flow Testing (CFT), it was determined that a practical method of measuring the degree of asset/liability mismatch existed. It involves further scenario testing. See Appendix 1 - "C3 RBC for Certain Asset Adequacy CFT Business" for details.

Otherwise, if none of the company's Section 8 Asset Adequacy Analysis involves CFT, refer to the factors in "Companies Not Filing a Section 8 Actuarial Opinion" above.

*Specific Instructions for Application of the Formula*

Lines (1) through (18) deal with companies that submit Section 8 Opinions.

The Lines (19) and higher cover:

- (a) the remaining Section 8 company business that was not CFT (see Appendix 1 for details), and
- (b) business in companies that do not submit Section 8 opinions.

The calculation for risk-based capital should not include unitized separate accounts without guarantees even though they may be included in Item 11 of the Notes to Financial Statements. Separate accounts with guarantees should be included, except for certain guaranteed separate accounts as defined below. Synthetic GICs net of certain credits should be included in this section. The provisions for these credits to C-3 requirements are provided in the Separate Accounts section of the risk-based capital instructions. Experience rated pension contracts defined below should be excluded from “annuity reserves with market value adjustment” and “annuity reserves not withdrawable.” All amounts should be reported net of reinsurance, net of policy loans and adjusted for assumed and ceded modified coinsurance.

Experience rated group and individual pension business that meets all of the following five conditions is excluded from C-3 risk:

- (a) General account funded;
- (b) Reserve interest rate is carried at no greater than 4 percent and/or fund long-term interest guarantee (in excess of a year) does not exceed 4 percent;
- (c) Experience rating mechanism is immediate participation, retroactive credits, or other technique other than participating dividends; and
- (d) Either is not subject to discretionary withdrawal or is subject to market value adjustment, but only if the contractually defined lump sum market value adjustment reflects portfolio experience as well as current interest rates and is expected to pass both credit risk and rate risk to the policyholder at withdrawal. (A lump sum settlement based only on changes in prevailing rates does not meet this test. Book value cash out options meet this test as long as the present value of payments using U.S. Treasury spot rates is less than or equal to the lump sum market value on the valuation date and the policyholder does not have an option to change the payment period once payments begin);
- (e) Not CFT tested as part of a Section 8 Opinion.

Separate account business with guarantees that satisfy conditions (b) ,(d) and (e) above is excluded from C-3 risk.

Unitized separate account business with guarantees provided via guaranteed living benefits is handled as follows:

- (a) The factor is applied to the sum of reserves for the base separate account plan plus any additional reserves for guaranteed living benefits (“base amounts”). The calculation is done net of reinsurance. For purposes of the calculation, the gross reserve for the base separate account plan is reduced proportionally to the extent the guaranteed living benefits are reinsured on a proportional basis.
- (b) The policy is assigned to the medium risk category if the following two conditions are both met:
  - 1. The actuary submits an unqualified reserve adequacy opinion for the company, and
  - 2. On a seriatim basis, the fund balance for a particular policy is no less than the “effective floor,” where the “effective floor” is determined as the floor benefit accrued as of the annual statement date. For guaranteed minimum income benefits, the floor is further adjusted by multiplying by a factor of 80 percent (to account for margins to the insurer from policyholder requirement to annuitize).

Include the “base amounts” in Line (24) Column (1) of LR022 Interest Rate Risk if the two conditions above are met.

- (c) If the above two conditions are not met, the policy is assigned to the high-risk category. Include the “base amounts” in Line (29) Column (1) of LR022 Interest Rate Risk.

Structured settlements are reported in the medium risk category and consist of either immediate or deferred payout annuities that are purchased from damages received on account of personal injuries or sickness. The payments under these contracts should be excludable from the annuitants’ gross income for tax purposes under Sec 104(a)(2) of the Internal Revenue Code.

The total of all Annual Statement reserves representing exposure to C-3 risk on Line (35) should equal the following:

- Exhibit 8, Section A, Column 2, Line 0199999
- Page 2, Column 4, Line 5
- + Exhibit 8, Section B, Column 2, Line 0299999
- + Exhibit 8, Section C, Column 2, Line 0399999
- + Exhibit 10, Column 1, Line 19
- + Separate Accounts Page 3, Column 1, Line 1 through Line 5 (funds in unitized separate accounts with no underlying guaranteed minimum return and no unreinsured guaranteed living benefits should be deducted from this amount. In addition, deduct any non-CFT separate accounts with guarantees less than 4 percent, and and non-CFT experience rated pension reserves/liabilities).
- Non policyholder reserves reported on Exhibit 10
- + Exhibit 8, Column 2, Line 0700004
- + Schedule S, Part 1, Section 1, Column 11
- Schedule S, Part 3, Section 1, Column 13

## Appendix 1 – C-3 RBC for Certain Asset Adequacy CFT Business

The method of developing the C-3 component is building on the work of the asset adequacy modeling, but using interest scenarios designed to help approximate the 95<sup>th</sup> percentile C-3 risk.

The revised C-3 component is to be calculated as the sum of three amounts, but subject to a minimum and maximum. The calculation is:

- a) For **Annuities or Single Premium Life Insurance** products, whether written directly or assumed through reinsurance, that the company tests for Asset Adequacy Analysis using cash flow testing, an actuary should calculate the C-3 requirement based on the same cash flow models and assumptions used and same “as-of” date as for Asset Adequacy, but with a different set of interest scenarios, and a different measurement of results. A weighted average of a subset of the scenario specific results is used to determine the C-3 requirement. **Equity indexed products** are to use the existing factors, not the results of scenario testing. If the “as-of” date of this testing is not 12/31, the ratio of the C-3 requirement to reserves on the “as-of” date is applied to the year end reserves, similarly grouped, to determine the year-end C-3 requirement for this category.
- b) For all other products (either non-cash-flow-tested or those outside the product scope defined above) the C-3 requirements are calculated using current existing factors and instructions.
- c) For **callable assets** (including IOs and similar investments) supporting surplus and reserves not tested by Asset Adequacy Analysis (whether CFT or other methods), the C-3 requirement is 50% of the excess, if any, of statement value above current call price. This calculation is to be done on an asset by asset basis.

The total C-3 component is the sum of a, b, and c, but not less than half nor more than double the C-3 component based on current factors and instructions.

- For this C-3 calc, “**annuities**” means products with the characteristics of deferred and immediate annuities, structured settlements, guaranteed separate accounts, and GICs (including synthetic GICs, and funding agreements). **Debt incurred for funding an investment account** is included if cash flow testing of the arrangement is required by the insurer’s state of domicile for Asset Adequacy Analysis. The equity-based portions of variable products are not to be included, but guaranteed fixed options within such products are. See Appendix 1b for further discussion.
- The company may use either a standard 50 scenario set of interest rates or an alternative, but more conservative, 12 scenario set (for part a, above). It may use the smaller set for some products and the larger one for others. Details of the scenario testing methodology are contained in Appendix 1a.

- In order to allow time for the additional work effort, an estimated value is permitted for the year end annual statement. For the RBC diskette filing, though, the actual C-3 results based on the scenario testing will be required. If the actual RBC value exceeds that estimated earlier in the blanks filing by more than 5%, or if the actual value triggers regulatory action, a revised filing with the NAIC and the state of domicile is required by June 15; otherwise re-filing is permitted but not required.
- The diskette submission is to be accompanied by a statement from the Appointed Actuary certifying that in his or her opinion the assumptions used for these calculations are not unreasonable for the products, scenarios, and purpose being tested. This "C-3 Assumption Statement" is required from the Appointed Actuary even if the C-3 Risk scenario testing is done by a different actuary.
- The scenario testing used for this purpose will use the same assumptions as to cash flows, assets associated with tested liabilities, future investment strategy, rate spreads, "as-of" date and how negative cash flow is reflected as are used for cash flow testing (except that if negative cash flow is modeled by borrowing, the actuary needs to make sure that the amount and cost of borrowing are reasonable for that particular scenario for C-3 testing) The other differences are the interest scenarios themselves and how the results are used.
- The actuary must also assure that the cash flow testing used for the 50 or 12 scenarios does not double count cash flow offsets to the interest rate risks. That is, that the calculations do not reduce C-3 and another RBC component for the same margins. For example, certain reserve margins on some guaranteed separate account products serve an AVR role and are credited against the C-1 requirement. To that degree, these margins should be removed from the reserve used for C-3 testing.

## Appendix 1a - Scenario Testing Methodology

### General Approach

1. The underlying asset and liability model(s) are those used for year-end Asset Adequacy Analysis cash flow testing, or a consistent model.
2. Run the scenarios (12 or 50) produced from the interest-rate scenario generator.
3. The statutory C&S position, S(t), should be captured for every scenario for each calendar year-end of the testing horizon. The C&S position is equal to statutory assets less statutory liabilities for the portfolio.
4. For each scenario, the C-3 measure is the most negative of the series of present values S(t)\*pv(t), where pv(t) is the accumulated discount factor for t years using 105% of the after-tax one-year Treasury rates for that scenario. In other words:

$$pv(t) = \prod_{1}^t 1/(1+i_t)$$

5. Rank the scenario-specific C-3 measures in descending order, with scenario number 1's measure being the positive capital amount needed to equal the very worst pv measure.
  6. Taking the weighted average of a subset of the scenario specific C-3 scores derives the final C-3 factor.
- a) For the 50 scenario set, the C-3 scores are multiplied by the following series of weights:

----- Weighting Table -----

Scenario Rank:	17	16	15	14	13	12	11	10	9	8	7	6	5
Weight:	.02	.04	.06	.08	.10	.12	.16	.12	.10	.08	.06	.04	.02

The sum of these products is the C-3 charge for the product.

- b) For the 12 scenario set, the charge is calculated as the average of the C-3 scores ranked 2 and 3, but cannot be less than half the worst scenario score.

7. If multiple asset/liability portfolios are tested and aggregated, an aggregate C-3 factor can be derived by first summing the S(t)'s from all the portfolios (by scenario) and then following steps 2. - 6. An alternative method is to calculate the C-3 score by scenario for each product, sum them by scenario, then rank-order them and apply the above weights.

### **Single Scenario C-3 Measurement Considerations**

1. GENERAL METHOD - this approach incorporates interim values, consistent with the approach used for bond, mortgage and mortality RBC factor quantification. The approach establishes the risk measure in terms of an absolute level of risk (e.g., solvency) rather than volatility around an expected level of risk. It also recognizes reserve conservatism, to the degree that such conservatism hasn't been used elsewhere.
2. INITIAL ASSETS = RESERVES - consistent with Appointed Actuary practice, the cash flow models are run with initial assets equal to reserves; that is, no surplus assets are used.
3. AVR - existing AVR-related assets should not be included in the initial assets used in the C-3 modeling. These assets are available for future credit loss deviations over and above expected credit losses. In cash flow modeling, expected credit losses are typically modeled without deviations. These deviations are covered by C-1 risk capital. Similarly, future AVR contributions should not be modeled.
4. IMR - IMR assets should be used for C-3 modeling. (Also see #9 – Disinvestment Strategy)
5. INTERIM MEASURE - retained statutory surplus (i.e., statutory assets less statutory liabilities) is used as the year-to-year interim measure.
6. TESTING HORIZONS - surplus adequacy should be tested over a period that extends to a point at which contributions to surplus on a closed block are immaterial in relationship to the analysis. If some products are being cash flow tested for Asset Adequacy Analysis over a longer period than the 30 years generated by the interest rate scenario generator, the scenario rates should be held constant at the year 30 level for all future years. A consistent testing horizon is important for all lines if the C-3 results from different lines of business are aggregated.
7. TAX TREATMENT - the tax treatment should be consistent with that used in Asset Adequacy Analysis. Appropriate disclosure of tax assumptions may be required.
8. REINVESTMENT STRATEGY - the reinvestment strategy should be that used in Asset Adequacy Analysis modeling.

9. **DISINVESTMENT STRATEGY** – In general, negative cash flows should be handled just as they are in the Asset Adequacy Analysis. The one caveat is that, since the RBC scenarios are more severe, models that depend on borrowing need to be reviewed to be confident that loans in the necessary volume are likely to be available under these circumstances at a rate consistent with the model’s assumptions. If not, adjustments need to be made.

If negative cash flows are handled by selling assets, then appropriate modeling of contributions and withdrawals to the IMR need to be reflected in the modeling.

10. **STATUTORY PROFITS RETAINED** - the measure is based on a profits retained model, anticipating that statutory net income earned one period is retained to support capital requirements in future periods. In other words, no stockholder dividends are withdrawn, but policyholder dividends, excess interest, declared rates, etc. are modeled realistically.
11. **LIABILITY and ASSET ASSUMPTIONS** - the liability and asset assumptions should be those used in Asset Adequacy Analysis modeling. Disclosure of these assumptions may be required.
12. **SENSITIVITY TESTING** – Key assumptions shall be stress tested (e.g. lapses increased by 50% ) to evaluate sensitivity of the resulting C-3 requirement to the various assumptions made by the actuary. Disclosure of these results may be required.

## Appendix 1b - Frequently Asked Questions

1. Where can the scenario generator be found? What is needed to run it?

The scenario generator is a Microsoft Excel spreadsheet. By entering the Treasury yield curve at the date for which the testing is done, it will generate the sets of 50 or 12 scenarios. It requires Windows 95 or higher. This spreadsheet and the instructions are available on the NAIC website ([www.naic.org](http://www.naic.org)). It is also available on diskette from the American Academy of Actuaries.

2. The results of the scenario testing may be sensitive information in some instances. How can it be kept confidential?

As provided for in Section 8 of the Risk-Based Capital (RBC) For Insurers Model Act, all information in support of and provided in the RBC Reports (to the extent the information therein is not required to be set forth in a publicly available annual statement schedule), with respect to any domestic or foreign insurer, which is filed with the commissioner constitute information that might be damaging to the insurer if made available to its competitors, and therefore shall be kept confidential by the commissioner. This information shall not be made public or be subject to subpoena, other than by the commissioner and then only for the purpose of enforcement actions taken by the commissioner under the RBC For Insurers Model Act or any other provision of the insurance laws of the state.

3. The definition of the annuities category talks about “debt incurred for funding an investment account...”. Could you give a specific description of what is intended?

One example is a situation where an insurer is borrowing under an advance agreement with a federal home loan bank, under which agreement collateral, on a current market value basis, is required to be maintained with the bank. This arrangement has many of the characteristics of a GIC, but is classified as debt.

4. The instructions specify that the same assumptions are to be used as for Asset Adequacy Analysis, but my company cash flow tests a combination of Universal Life and annuities for that analysis and using the same assumptions will produce incorrect results. What was intended in this situation?

Where this situation exists, assumptions should be used for the Risk Based Capital work which are consistent with those used for the Asset Adequacy CFT testing. In other words, the assumptions used should be appropriate to the annuity component being evaluated for RBC and consistent with the overall assumption set used for Asset Adequacy Analysis.

**INTEREST RATE RISK**

SECTION 8 OPINIONS

	<u>Annual Statement Source</u>	(1) Statement Value	Factor	(2) RBC <b>REQUIREMENT</b>
(1a) Unqualified Section 8 Actuarial Opinion?	[(Y) Yes or (N) No in Column 1]			
(1b) <b>CFT on Annuities or Single Premium Life?</b>	[(Y) Yes or (N) No in Column 1]			
(1c) <b>If (1b) was Yes, is the Appointed Actuary C-3 Assumption Statement attached?</b>	[(Y) Yes or (N) No in Column 1]			
<u>Low Risk Category which were CFT</u>				
(2) Annuity Reserve with Market Value Adjustment (excluding unitized separate accounts)*	Notes to Financial Statements Item 12 Line 1.1, in part‡		CFT =	
(3) Annuity Reserve not Withdrawable (excluding structured settlements)*	Notes to Financial Statements Item 12 Line 2, in part‡		CFT =	
(4) Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity £	Notes to Financial Statements Item 12 Various Lines, in part‡		CFT =	
(5a) <b>Single Premium</b> Life Insurance Reserves Net of Reinsurance	Exhibit 8 Section A Column 2 Line 0199999 in part‡			
(5b) Less <b>Single Premium</b> Life Policy Loans	Page 2 Line 5 in part			
(5c) Plus Modified Coinsurance Assumed <b>Single Premium</b> Life Reserves net of ModCo Assumed Policy Loans	Schedule S Part 1 Section 1 Column 11, in part‡			
(5d) Less Modified Coinsurance Ceded <b>Single Premium</b> Life Reserves net of ModCo Ceded Policy Loans	Schedule S Part 3 Section 1 Column 13, in part‡			
(5e) <b>Single Premium</b> Life Insurance Reserves	Line (5a) –(5b)+ (5c) - (5d)		CFT =	
(6) Total Low Risk	Lines (2) + (3) + (4) + (5e)			
<u>Medium Risk Category which were CFT</u>				
(7) Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More*	Notes to Financial Statements Item 12 Line 1.2, in part‡		CFT =	
(8) Exhibit 10 Reserve not Included in Notes to Financial Statements Item 12 §	Exhibit 10 Line 19 amounts not included in part‡		CFT =	
(9) Structured Settlements	Notes to Financial Statements Item 12 Line 2, in part‡		CFT =	
(10) Additional Actuarial Reserves for <b>Annuities and SPL</b> - Asset/Liability Analysis	Exhibit 8 Column 2 Line 0700004 in part‡		CFT =	Included Elsewhere
(11) Total Medium Risk	Sum of Lines (7) through (10)			
<u>High Risk Category which were CFT</u>				
(12) Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)*	Notes to Financial Statements Item 12 Line 1.5, in part‡		CFT =	

(13) **Debt with GIC-like characteristics (see Appendix 1 & 1b Directions)**

(14) Total High Risk

Company records

Sum of Lines (12) & (13)

CFT =   

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SECTION 8 OPINIONS (continued)

	<u>Annual Statement Source</u>	(1) Statement <u>Value</u>	<u>Factor</u>	(2) RBC <b>REQUIREM'T</b>
<u>Synthetic GIC's</u>				
(15) Synthetic GIC's C-3 Requirement	Company records		CFT	= [REDACTED]
<b>CALLABLE ASSETS</b>				
(16) <b>CALLABLE ASSETS SUPPORTING SURPLUS AND RESERVES NOT TESTED BY ASSET ADEQUACY ANALYSIS</b>	Company records		Calc	= [REDACTED]
<b>SUBTOTAL</b>				
(17) <b>Subtotal of CFT Interest Rate Risk</b>	Lines (6) + (11) + (14) + (15) + (16)			_____
(18) <b>Subtotal of CFT Interest Rate Risk if Factors were used instead</b>	Built-in Calc			_____
				=====

- ‡ Net of reinsurance, less policy loans, plus modified coinsurance assumed reserves, less modified coinsurance ceded reserves.
- § Excluding any non-policyholder reserves (e.g., reserves that are not related to specific policies).
- \* Excluding GICs within 1 year of maturity.
- £ Includes GICs within 1 year of maturity subtracted elsewhere.

[REDACTED] Denotes items that must be manually entered on the filing software.

ALL OPINIONS (exclude statement amounts included in Lines 2 to 18 above)

	<u>Annual Statement Source</u>	(1) Statement <u>Value</u>	<u>Factor</u>	(2) RBC <b>REQUIREMENT</b>
<u>Low Risk Category using Factors</u>				
(19) Annuity Reserve with Market Value Adjustment (excluding unitized separate accounts and eligible experience rated pension and separate accounts with guarantees)*	Notes to Financial Statements Item 12 Line 1.1, in part‡	[REDACTED]	X 0.0075 or 0.0050† =	_____
(20) Annuity Reserve not Withdrawable (excluding structured settlements and eligible experience rated pension and separate accounts with guarantees)*	Notes to Financial Statements Item 12 Line 2, in part‡	[REDACTED]	X 0.0075 or 0.0050† =	_____
(21) Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity £	Notes to Financial Statements Item 12 Various Lines, in part‡	[REDACTED]	X 0.0075 or 0.0050† =	_____
(22a) Life Insurance Reserves Net of Reinsurance	Exhibit 8 Section A Column 2 Line 0199999	[REDACTED]		
(22b) Less Life Insurance Reserves Policy Loans	Page 2 Line 5 in part	[REDACTED]		
(22c) Plus Modified Coinsurance Assumed Reserves net of Modified Coinsurance Assumed Policy Loans	Schedule S Part 1 Section 1 Column 11, in part‡			
(22d) Less Modified Coinsurance Ceded Reserves net of Modified Coinsurance Ceded Policy Loans	Schedule S Part 3 Section 1 Column 13, in part‡			
(22e) Life Insurance Reserves	Line (22a) - (22b) + (22c) - (22d)		X 0.0075 or 0.0050† =	_____
(23) Total Low Risk	Lines (19) + (20) + (21) + (22e)			=====
<u>Medium Risk Category using Factors</u>				
(24) Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More*	Notes to Financial Statements Item 12 Line 1.2, in part‡	[REDACTED]	X 0.0150 or 0.0100† =	_____
(25) Exhibit 10 Reserve not Included in Notes to Financial Statements Item 12 §	Exhibit 10 Line 19 amounts not included	[REDACTED]	X 0.0150 or 0.0100† =	_____
(26) Structured Settlements	Elsewhere in Interest Rate Risk (C-3)‡	[REDACTED]	0.0150	_____
(27) Additional Actuarial Reserves – Asset/Liability Analysis	Notes to Financial Statements Item 12 Line 2, in part‡ Exhibit 8 Column 2 Line 0700004	[REDACTED]	X 0.0150 or 0.0100† =	_____
(28) Total Medium Risk	Sum of Lines (24) through (27)			=====
<u>High Risk Category using Factors</u>				
(29) Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)*	Notes to Financial Statements Item 12 Line 1.5, in part‡	[REDACTED]	X 0.0300 or 0.0200† =	_____
(30) Total High Risk	Line (29)			=====

ALL OPINIONS (exclude statement amounts included Lines 2 to 18 above) (cont.)

	<u>Annual Statement Source</u>	(1) Statement Value	(2) RBC <b>REQUIREMENT</b>
<u>Synthetic GIC's</u>			
(31) Synthetic GIC's C-3 Requirement	Company records		RBC x 1.000 (less "haircut")
(32) <b>Subtotal of Factor Interest Rate Risk</b>	Lines (23) + (28) + (30) + (31)		
<b>TOTAL</b>			
(33) <b>Interest Rate Risk Combining CFT and Factors</b>	Lines (17)+(32)		
(34) <b>Interest Rate Risk Using Factors in All Cases</b>	Lines (18)+(32)		
(35) <b>Total Interest Rate Risk</b>	(33), but not more than 2 x (34) or less than 0.5 x (34)		

- † The factors are decreased by one-third if the company submits an unqualified actuarial opinion under Section 8 of the revised Standard Valuation Law. The diskette automatically recalculates the factor, depending on the answer to Line (1).
- ‡ Net of reinsurance, less policy loans, plus modified coinsurance assumed reserves, less modified coinsurance ceded reserves.
- § Excluding any non-policyholder reserves (e.g., reserves that are not related to specific policies).
- \* Excluding GICs within 1 year of maturity.
- £ Includes GICs within 1 year of maturity subtracted elsewhere.

 Denotes items that must be manually entered on the filing software.

9/20/99

