



AMERICAN ACADEMY *of* ACTUARIES

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February 19, 2019

Mr. Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Dear Philip,

The RBC Tax Reform Work Group (TRWG) of the American Academy of Actuaries' (Academy)¹ Life Practice Council is pleased to submit comments on the document "LRBCWG Guidance on RBC Results 2018," which was exposed for comment by your working group on Jan. 25, 2019.

We have comments on two pages of the exposed document:

Page 3 - The second bullet of the section, "What are the changes in ACL that will be effective for the 2018 filing year?" currently says "C1 pre-tax RBC factors for bonds, preferred stocks, and similar instruments, and C2 RBC factors for individual and group life, were reduced by 3 percent, reflecting a higher post-tax discount rate." We believe that some readers of the document might not be aware that the calculation of these C1 and C2 RBC factors involve assumptions of future losses. Therefore, we suggest additional clarifying language to the end of the sentence, so it would read "...discount rate, because these RBC factors are calculated assuming future losses."

Also, the third bullet of the same section refers to changes to the C4 factor. That reference should be changed to read "... and the C4-a factors were adjusted..."

Page 5: The last paragraph of the section, "How should the effects of the TCJA be factored into the interpretation of RBC results?" currently says:

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

“It should be noted that a lower RBC Ratio resulting from these changes does not necessarily mean that a life insurer is ‘riskier’ than before tax reform. It simply means that stress events will take more capital than under the prior tax law. RBC is a point-in-time calculation that does not consider the possibility of future increased after-tax earnings that might partially offset the impact of those future stress events.”

Possible alternate wording for this paragraph is as follows:

“RBC is a point-in-time calculation, and a decrease in the Dec. 31, 2018, RBC Ratio due to tax reform implies that the life insurer is more susceptible to stress events as of that date. Note that the underlying non-tax-related risks to which a life insurer is exposed did not change as a result of tax reform.”

Please let us know if you have any questions about these recommendations. We stand ready to assist your working group as you move forward. If you have any questions, please contact Ian Trepanier (trepanier@actuary.org), life policy analyst at the Academy.

Sincerely,

Wayne E. Stuenkel, MAAA, FSA, CERA
Chairperson, RBC Tax Reform Work Group
American Academy of Actuaries