



AMERICAN ACADEMY *of* ACTUARIES

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TO: Lou Felice, NAIC HORBC Working Group

FROM: Bill Weller, Chairperson, AAA Joint RBC Task Force  
Burt Jay, Chairperson, AAA State Health Committee  
Alan Ford, Chairperson, AAA HORBC Task Force

The American Academy of Actuaries' Joint RBC Task Force has extensively discussed changes to the RBC formula to allow flexibility in the treatment of the impact of taxes, including deferred tax assets and deferred tax liabilities, as well as in the determination of RBC Required Capital. The Academy's HORBC Task Force has participated in these discussions.

At the request of the NAIC RBC Task Force, proposed program requirements (new lines and sources) for all three formulas have been developed. The changes to the HORBC formula have been sent in a separate e-mail containing three Excel spreadsheets.

The Academy's HORBC Task Force believes that these changes provide the flexibility necessary to allow for potential adjustments in the determination of RBC for Health Organizations, such as:

1. Eliminating DTA/DTL impact on TAC (attempt to retain the 2000 RBC ratio);
2. Allowing full or partial recognition of DTA/DTL in TAC;
3. Allowing for development of new RBC factors considering these items; and
4. Providing for specific tax adjustment prior to covariance.

The HORBC Task Force is making no recommendation at this time as to the manner in which the impact of taxes is ultimately reflected in the determination of RBC. Adoption of the proposed program changes will provide additional information that will help facilitate the development of appropriate recommendations during the first half of 2001.

We appreciate this opportunity to be of service to the NAIC, and welcome your comments and suggestions.