

**Federal Home Loan Bank Stock Changes
A Recommendation by the American Academy of Actuaries
Life-Risk Based Capital Committee**

**Presented to the National Association of Insurance Commissioners
Life Risk-Based Capital Working Group
June 2001 – New Orleans**

The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

Life Risk-Based Capital Committee
Michael L. Zurcher, F.S.A., M.A.A.A., Chair

Gerald A. Anderson, F.S.A., M.A.A.A.
Robert A. Brown, F.S.A., M.A.A.A.
Errol Cramer, F.S.A., M.A.A.A.
Larry Gorski, F.S.A., M.A.A.A.
Norman E. Hill, F.S.A., M.A.A.A.
Jan L. Pollnow, F.S.A., M.A.A.A.
James F. Reiskytl, F.S.A., M.A.A.A.
Harold Summer, F.S.A., M.A.A.A.
Bill Wilton, F.S.A., M.A.A.A.

Stephen M. Batza, F.S.A., M.A.A.A.
Martin Claire, F.S.A., M.A.A.A.
Joseph L. Dunn, F.S.A., M.A.A.A.
Arnold N. Greenspoon, F.S.A., M.A.A.A.
Alastair G. Longley-Cook, F.S.A., M.A.A.A.
Craig R. Raymond, F.S.A., M.A.A.A.
Mark C. Rowley, F.S.A., M.A.A.A.
James A. Tolliver, F.S.A., M.A.A.A.
Miles B. Yakre, F.S.A., M.A.A.A.

Recommendation:

Change the RBC factor for the stock of the Federal Home Loan Bank (FHLB) from 2.3% to 0.8%. Change the RBC pretax factor to 1.1% for the sensitivity test.

Explanation:

The FHLB stock RBC factor was originally set equal to that of a Class 1 Preferred Stock. At that time, the preferred stock RBC factors were set equal to the comparable bond factors plus 2%. As a result, the FHLB RBC factor was set at 2.3%. In 1997, when a separate study of preferred stock experience was completed, the Class 1 factor for preferred stock was changed from 2.3% to 0.9%. The FHLB RBC factor was not considered nor changed. This recommendation belatedly corrects for this oversight and restores it to its original intent--making it equivalent to the Preferred Stock Class 1 RBC factor again.