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April 3, 2018

Mr. Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)
Via Email: Dave Fleming (DFleming@naic.org)

Dear Philip,

The RBC Tax Reform Work Group of the American Academy of Actuaries,¹ Life Practice Council is pleased to provide the attached document, displaying in tabular form the suggested changes to the NAIC's Life Risk-Based Capital (RBC) calculation of Authorized Control Level RBC that were outlined in our letter to you of March 16, 2018.

We stand ready to assist your working group as you move forward.

Sincerely,

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

¹ The American Academy of Actuaries is a 19,000-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.

American Academy of Actuaries – RBC Tax Reform Work Group
Suggested Changes to RBC Factors per 3/16/18 Letter to NAIC Life Risk-Based Capital (E) Working Group

Category	Current pre-tax factor	Current tax factor	Life Practice Council RBC Tax Reform Work Group Proposal
C-1			
Bonds (both long and short term, including RMBS and CMBS)	Various	0.2625	<p>For 2018</p> <ul style="list-style-type: none"> • Calculate pre-tax RBC factors for each current bond category equal to [(current pre-tax RBC factor) X 0.97] • Change tax factor to 0.1575 (75% of 0.21) <ul style="list-style-type: none"> ○ If NAIC incorporates updated DTA recognition assumption, then use 0.1680 tax factor (80% of 0.21) <p>For 2019 and later (assuming that updated bond categories and factors are effective in 2019)</p> <ul style="list-style-type: none"> • Rerun new Academy C-1 Work Group bond model using updated tax rates to develop after-tax RBC factors for each new bond category • Derive pre-tax RBC factors for each new bond category, equal to [(after-tax RBC factors) / (1 - 0.1680)] • Change tax factor to 0.1680
NAIC 6 bond	0.30	0.35	Change tax factor to 0.21
Reinsured assets	Various	0.35	Change tax factor to 0.21
Home mortgage	0.014, 0.068	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Comm'l / farm mort	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Pref stock	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Hybrids	Various		For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Sep acct	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680

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Real estate	Various	0.35	Change tax factor to 0.21. Tax factor treatment could be reviewed when NAIC adopts new base real estate factors.
Asset size		0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Misc assets	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Affiliate, parent	0.30	0.35	Change tax factor to 0.21
Off-balance sheet, other	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Affiliated Stock	Various	0.35	Change tax factor to 0.21
Reins assumed / ceded	0.008	0.35	Change tax factor to 0.21
Non-affiliated common stock	0.30	0.35	Change tax factor to 0.21. Beta adjustment remains unchanged
Surplus, cap notes	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680

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Category	Current pre-tax factor	Current tax factor	Life Practice Council RBC Tax Reform Work Group Proposal
C-2			
C-2 life – ind, group	Stepped	0.35	<p>For 2018</p> <ul style="list-style-type: none"> • Reduce pre-tax RBC factors by 3% • Change tax factor to 0.21 <p>For 2019 and later</p> <ul style="list-style-type: none"> • If current C-2 methodology remains in place – use same method as proposed for 2018 (above) • If new C-2 methodology/factors are approved by NAIC – use new factors
C-2 A&H – premiums, reserves	Various	0.35, 0.00	Reaching out to Academy Health Solvency Subcommittee for their suggestions
ERR, etc.	0.50	0.00	Reaching out to Academy Health Solvency Subcommittee for their suggestions
C-3			
C-3 base factor	0.0077, 0.0154, 0.0308	0.35	Change pre-tax base factors to 0.0063, 0.0127, 0.0253 Change tax factor to 0.21
C-3 Phase 1	n/a	n/a	No changes to RBC instructions needed
C-3 Phase 2	n/a	n/a	Change references in RBC instructions from 35% to “tax rate”

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Category	Current pre-tax factor	Current tax factor	Life Practice Council RBC Tax Reform Work Group Proposal
C-4			
C-4 base Factor	0.0077, 0.0308	0.35	Change tax factor to 0.21
Sep Acct	0.0008	0.35	Change tax factor to 0.21
C-0			
Affiliated insurers	Various	0.35	Change tax factor to 0.21
Non-control assets	0.004, 0.013	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Derivative	Various	0.2625	For 2018 - use same tax factor as bonds (either 0.1575 or 0.1680) For 2019 – change tax factor to 0.1680
Deferred tax asset	0.005, 0.01	0.00	Leave tax factor unchanged