



National Association of Insurance Commissioners

2009

# RBC

Risk-Based Capital

# FOR RECASTING & INSTRUCTIONS

Property  
and  
Casualty  
P&C  
*Property and Casualty*

## Regulator Use





# **Risk-Based Capital Forecasting & Instructions**

**Property/Casualty**

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**2009**



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NAIC Executive Office  
444 North Capitol Street NW, Suite 701  
Washington, DC 20001  
202.471.3990

NAIC Central Office  
2301 McGee Street, Suite 800  
Kansas City, MO 64108-2662  
816.842.3600

NAIC Securities Valuation Office  
48 Wall Street, 6th Floor  
New York, NY 10005-2906  
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National Association of Insurance Commissioners

**DATE:** October 28, 2009  
**TO:** Property and Casualty Risk-Based Capital Subscribers  
**FROM:** Eva Yeung  
**SUBJECT:** 2009 Property and Casualty Risk-Based Capital Report

Changes made to the 2009 property and casualty risk-based capital overview and instructions are highlighted in bold font within this document. Here is the summary of the changes:

- 1) The following are modifications in the PRBC Blank and Instructions resulted from the newly added Hybrid Securities section in Annual Statement, Schedule D:
  - a) The Annual Statement Sources for Unaffiliated Bonds (PR005)
    - i) Line (3) has been changed to C6 L10.1 – L8.1.
    - ii) Line (6) has been changed to C6 L10.2 – L8.2.
    - iii) Line (9) has been changed to C6 L10.3 – L8.3.
    - iv) Line (12) has been changed to C6 L10.4 – L 8.4.
    - v) Line (15) has been changed to C6 L 10.5 – L 8.5.
    - vi) Line (18) has been changed to C6 L 10.6 – L 8.6.
  - b) The Line Numbers, Descriptions and Annual Statement Sources for Unaffiliated Preferred, Common Stock and Hybrid Securities (PR006)
    - i) The line numbers have been updated.
    - ii) The description for Line (7) was changed to Subtotal – Unaffiliated Preferred Stock (should equal P2 2.1 C3 less Sch D-Sum C1 L18) and the annual statement source was changed to Sum of Ls(1) through (6).
    - iii) The descriptions and Annual Statement Source for Lines (8) through (13) were changed to Class 01 through Class 06 Hybrid Securities and Sch D Pt 1A Sn 1 C(6) L (8.1) through (8.6), respectively.
    - iv) The Subtotal – Hybrid Securities line was added.
    - v) The formula reference for Lines (15), (20) and (22) was changed due to the addition of the Hybrid Securities.
    - vi) The Annual Statement Sources for Line (16) was changed to Sch D Pt 2 Sn 2 C(6) L(9399999).
    - vii) Pages 9 and 12 of the PRBC Instructions were updated.
  - c) The Annual Statement Sources for Miscellaneous Assets (PR008)
    - i) Line (5) was altered to Sch E Pt 2 C6 L8399999 in part.
    - ii) Line (8) was altered to Sch DA Pt 1 C8 L8399999.
    - iii) Line (9) was altered to Sch DA Pt 1 C8 L8800000.
    - iv) Line (10) was altered to Sch DA Pt 1 C8 L8999999.
  - d) The Descriptions for Asset Concentration (PR010)
    - i) The (excluding Hybrids) were eliminated for Lines (8), (9), (10) and (11).
    - ii) Lines (12) through (15) were updated to Class 02, 03, 04 and 05 Hybrid Securities, respectively.
  - e) The Description and PRBC O&I References for Calculation of Total Risk-Based Capital After Covariance PR028 R2-R3
    - i) The description and PRBC O&I Reference for Line (45) were updated to Unaffiliated Preferred Stock and Hybrid Securities and PR006 L(15)C(2) +PR014L(16)C(2), respectively.
    - ii) The PRBC O&I Reference for Line (46) was updated to PR006 L(22)C(2) +PR014L(17)C(2).
- 2) The following updates reflect the changes of the Annual Statement, Schedule D – Summary:
  - a) The Annual Statement Sources for Unaffiliated Preferred, Common stock and Hybrid Securities (PR006) Lines (17) and (18) were updated to Sch D – summary C1 L25 and C1 L24, respectively.
  - b) The Line Reference of the Affiliated Preferred Stock Fair Value of Manual Entry Data (PROTH) was changed to Line 18.

<b>EXECUTIVE OFFICE</b>	444 N. Capitol Street, NW, Suite 701	Washington, DC 20001-1509	p   202 471 3990	f   816 460 7493
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- 3) The following are changes due to the update of the terminology Medical Malpractice:
  - a) Underwriting Risk – Reserves (PR016) and Underwriting Risk – Net Written Premiums (PR017), C (6) and (7) were changed to MPL OCCURRENCE and MPL CLAIMS MADE, respectively.
  - b) Lines (11.1) and (11.2) of Underwriting and Investment Exhibit – Premium Written (PR032) were changed to Medical Professional Liability – Occurrence and Medical Professional Liability – Claims-Made, respectively.
  - c) Lines (9) and (10) of Schedule Part 3 Reinsurance Credit and Medical Tabular Reserve (PR035), Lines (6) and (7) of Schedule Part 7A Section 1 Primary Loss Sensitive Contracts (PR700) and Schedule Part 7B Section 1 Reinsurance Loss Sensitive Contracts PR701 were altered to Medical Professional Liability – Occurrence and Medical Professional Liability – Claims-Made, respectively.
  - d) Page 19 of the PRBC Instructions was updated.
- 4) The Medicare Part D Coverage has been changed to Stand-Alone Medicare Part D Coverage:
  - a) Health Premiums (PR018), Lines (3.1), (3.2), (10.1) and (10.2) descriptions have been modified.
  - b) Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision (PR019), C (4) heading and second footnote have been updated.
  - c) The heading of the second section and the fourth footnote of the Underwriting Risk – Managed Care Credit (PR020) have been altered.
  - d) The PRBC Instructions (PR018 – PR024) and the Appendix 2 have been amended.
- 5) The Annual Statement Source for Gross Written Premiums (PR036), Lines (3), (4), (11) and (12) have been changed to L(35).
- 6) Changes made to Lines (62) and (67) of the calculation of Total Risk-Based Capital After Covariance (PR029) will include the Long-Term Care RBC requirement in the Covariance calculation.
- 7) Changes made for RBC Risk Factors for Medicare Part D Coverage adopted at the May 7, 2009, Health Risk-Based Capital Working Group Conference Call:
  - a) Health Premium (PR018), Line (10.2) factor has been modified.
  - b) Underwriting Risk, Experience Fluctuation Risk (PR019), Column (4), Lines (10.1) and (10.2) were updated.
  - c) Lines (10.3) and (10.4) of Underwriting Risk – Managed Care Credit Calculation (LR020) were changed.
  - d) Page 32 of the RBC Instructions was updated.





# Risk-Based Capital Newsletter

NAIC

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## What Risk-Based Capital Pages should be Submitted?

For year-end 2009 property RBC, hard copies of pages **PR001 through PR032, PR035 and PR036** should be submitted to any state that requests a hard copy in addition to the electronic filing. For year-end 2009 RBC, a hard copy will not be required to be submitted to the NAIC, but a PDF file representing the hard copy filing is part of the electronic filing.

Other pages, such as the Schedule P detail and capitations worksheet, do not need to be submitted. Those pages would need to be retained by the company as documentation.

## Updated Stand-Alone Medicare Part D Prescription Drug Coverage Factors

At the June 14, 2009, meeting of the Capital Adequacy (E) Task Force, changes for stand-alone Medicare Part D prescription drug coverage factors were adopted for the 2009 Health RBC formula and instructions. The following changes were made:

### PR018 Health Premiums

The factor for stand-alone Medicare Part D Prescription drug coverage Lines 3.2 and 10.2 were changed for page PR018 Health Premiums in a two-year phase-in:

PR018 Health Premiums	Factor
Supplemental benefits within Part D Coverage	PR018 Lines 3.2 & 10.2
2008 Original Factor	0.120
2009 Updated Factor	0.210
2010 Updated Factor	0.350

### PR019 Underwriting Risk–Experience Fluctuation Risk

Factors for Medicare Part D Prescription drug coverage Column 4 were changed for page PR019 Underwriting Risk – Experience Fluctuation Risk Lines 10.1 and 10.2:

PR019 Col. 4 Category	2008 Factor	2009 Factor
(10.1) Underwriting Risk Factor for First 25 Million of Premium	0.141	0.251
(10.2) Underwriting Risk Factor for Premium Amounts in Excess of 25 Million in Premium	0.106	0.151

### PR020 Underwriting Risk – Managed Care Credit

A managed care credit is calculated for PR019 line (12).

The factors were updated for page PR020 Lines 12 and 13:

LR019 Claims Category	2008 Factor	2009 Factor
(12) Category 2a - No Federal Reinsurance but Risk Corridor Protection	0.500	0.667
(13) Category 3a - Federal Reinsurance and Risk Corridor Protection apply	0.650	0.767

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## Hybrid Securities

The short-term solution of notching certain hybrid securities implemented by the Hybrid RBC (E) Working Group for year-end 2006 was in effect until Jan. 1, 2009. Starting Jan. 1, 2009, hybrid securities have been moved to a new line on Schedule D Part 1 and the notching is no longer in effect. The hybrid annual statement note disclosure was also eliminated at the same time.

Due to the changes in annual statement changes for hybrids, line references and a few additional subtotal lines needed to be added to the RBC formula. Hybrids will continue to be reported on the preferred stock page for the RBC calculation. But the factors used for hybrids will continue to be the same as used for bonds and preferred stock.

## New Underwriting Risk Factors

At the December 17, 2008, conference call of the Property Risk-Based Capital (E) Working Group, new factors were adopted for the Underwriting Risk page PR016 Underwriting Risk – Reserves Line (4) and PR017 Underwriting Risk – Net Written Premiums Line (4).

Unlike the Line (1) industry average factors that are updated annually, these factors had not been updated since the inception of the RBC formula in 1994. The factors were phased in for some lines of business over a two-year period. The change in the factors for year-end 2008 was capped at 15%. So the factors changed again for year-end 2009, again capped from changing more than 15%. Going forward, there will be a methodology for periodically updating the factors. The new 2009 factors will be as follows:

Col.	Line of Business	2008 PR015 Line (4) Factor	2009 PR016 Line (4) Factor	2008 PR015 Line (8) Factor	2009 PR016 Line (8) Factor	2008 PR016 Line (4) Factor	2009 PR017 Line (4) Factor	2008 PR016 Line (7) Factor	2009 PR017 Line (7) Factor					
(1)	H/F	0.230	<b>0.206</b>	0.939	0.93	9.0	9.2	7	<b>0.949</b>	0.951	0.95	1		
(2)	PPA	0.221	<b>0.199</b>	0.927	0.92	7.1	1.01	4	<b>0.983</b>	0.921	0.92	1		
(3)	CA	0.254	<b>0.238</b>	0.909	0.90	9.1	1.00	5.1	1.00	5.0	0.88	3		
(4)	WC	0.310	0.31	0.83	0.83	5.1	1.03	1	<b>1.051</b>	0.832	0.83	2		
(5)	CMP	0.403	<b>0.439</b>	0.884	0.88	4.0	0.92	4	<b>0.935</b>	0.888	0.88	8		
(6)	MPL OCCURRENCE	0.490	<b>0.439</b>	0.869	0.86	9.1	1.72	7	<b>1.842</b>	0.778	0.77	8		
(7)	MPL CLMS MADE	0.269	<b>0.283</b>	0.893	0.89	3.1	1.04	7	<b>1.071</b>	0.835	0.83	5		
(8)	SL	0.242	<b>0.249</b>	0.901	0.90	1.0	0.91	8	<b>0.910</b>	0.897	0.89	7		
(9)	OL	0.478	0.47	8.0	0.86	2.0	0.86	2.1	1.04	5.1	1.04	5.0	0.82	0
(10)	FIDELITY / SURETY	0.28	<b>0.315</b>	0.957	0.95	7.0	0.86	3.0	0.86	3.0	0.92	1.0	0.92	1
(11)	Special Property	0.165	<b>0.184</b>	0.966	0.96	6.0	0.98	5	<b>0.955</b>	0.944	0.94	4		
(12)	Auto Physical	0.135	<b>0.118</b>	0.975	0.97	5.0	0.84	7.0	0.84	7.0	0.97	2.0	0.97	2
(13)	Other(credit a&h)	0.164	<b>0.183</b>	0.964	0.96	4.0	0.87	6	<b>0.891</b>	0.956	0.95	6		
(14)	Mortg Guaranty	0.150	0.15	0.96	0.96	2.1	1.40	0.1	1.40	0.0	0.91	6.0	0.91	6
(15)	INTL	0.327	0.32	7.0	0.87	7.1	1.16	9.1	1.16	9.0	0.90	1.0	0.90	1
(16)	REIN. P&F Lines	0.256	<b>0.278</b>	0.901	0.90	1.1	1.27	3	<b>1.337</b>	0.884	0.88	4		
(17)	REIN. Liability	0.678	<b>0.750</b>	0.834	0.83	4.1	1.35	4	<b>1.419</b>	0.810	0.81	0		
(18)	PL	0.571	<b>0.627</b>	0.838	0.83	8.1	1.16	4	<b>1.195</b>	0.778	0.77	8		
(19)	Warranty	0.280	<b>0.315</b>	0.957	0.95	7.0	0.86	3.0	0.86	3.0	0.92	1.0	0.92	1

### New Industry Average Risk Factors – Annual Update

The annual update of industry average development factors was adopted at the June 1, 2009, conference call of the Property Risk-Based Capital (E) Working Group:

PR016 Underwriting Risk – Reserves  
Line (1), Industry Average Development Factors

Col.	Line of Business	2008 Factor	2009 Factor
(1)	H/F	0.983	0.983
(2)	PPA	1.003	<b>0.998</b>
(3)	CA	1.045	<b>1.031</b>
(4)	WC	1.033	<b>1.016</b>
(5)	CMP	1.034	<b>0.993</b>
(6)	MPL OCCURRENCE	1.343	<b>1.251</b>
(7)	MPL CLMS MADE	1.083	<b>1.033</b>
(8)	SL	1.060	<b>1.043</b>
(9)	OL	1.006	<b>0.963</b>
(10)	FIDELITY / SURETY	1.290	<b>1.247</b>
(11)	Special Property	1.102	<b>1.097</b>
(12)	Auto Physical	1.110	<b>1.107</b>
(13)	Other(credit a&h)	1.325	<b>1.262</b>
(14)	Mortg Guaranty	1.483	<b>0.893</b>
(15)	INTL	1.175	<b>1.181</b>
(16)	REIN. P&F Lines	1.025	<b>0.969</b>
(17)	REIN. Liability	1.314	<b>1.259</b>
(18)	PL	1.109	<b>1.073</b>
(19)	Warranty	1.290	<b>1.634</b>

PR017 Underwriting Risk – Net Written Premiums  
Line (1), Industry Average Loss and Expense Ratios

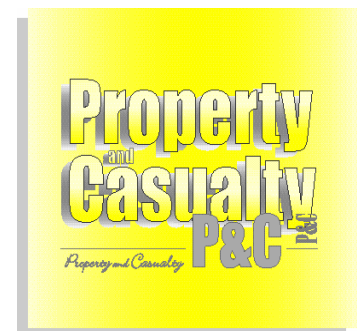
Col.	Line of Business	2008 Factor	2009 Factor
(1)	H/F	0.742	<b>0.737</b>
(2)	PPA	0.831	<b>0.821</b>
(3)	CA	0.763	<b>0.737</b>
(4)	WC	0.830	<b>0.805</b>
(5)	CMP	0.710	<b>0.695</b>
(6)	MPL OCCURRENCE	1.195	<b>1.104</b>
(7)	MPL CLMS MADE	1.003	<b>0.928</b>
(8)	SL	0.709	<b>0.673</b>
(9)	OL	0.738	<b>0.714</b>
(10)	FIDELITY / SURETY	0.583	<b>0.586</b>
(11)	Special Property	0.590	<b>0.575</b>
(12)	Auto Physical	0.705	<b>0.697</b>
(13)	Other(credit a&h)	0.737	<b>0.697</b>
(14)	Mortg. Guaranty	0.805	<b>0.605</b>
(15)	INTL	0.930	<b>0.956</b>
(16)	REIN. P&F Lines	0.977	<b>0.924</b>
(17)	REIN. Liability	1.165	<b>1.107</b>
(18)	PL	0.802	<b>0.780</b>
(19)	Warranty	0.583	<b>0.800</b>

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Address correspondence to: Eva Yeung, RBC Newsletters, NAIC, 2301 McGee Street, Suite 800, Kansas City, MO 64108-2604. Phone: (816) 783-8407. E-mail: Eyeung@naic.org

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RBC  
Risk-Based Capital  
2009





# **2009 NAIC Property and Casualty**

## **Risk-Based Capital Report**

**Including**

### **Overview and Instructions for Companies**



**as of December 31, 2009**

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***NAIC***

**National Association  
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# NAIC Property/Casualty Risk-Based Capital Report

## INTRODUCTION

Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the minimum capital requirement in which the degree of risk taken by the insurer is the primary determinant.

A company's risk-based capital is calculated by applying factors to various asset, premium and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of a company's actual capital may then be measured by a comparison to its risk-based capital as determined by the formula.

Risk-based capital standards will be used by regulators to set in motion appropriate regulatory actions relating to insurers that show indications of weak or deteriorating conditions. It also provides an additional standard for minimum capital requirements that companies should meet to avoid being placed in conservatorship.

## PURPOSE OF THIS REPORT

This report presents the **2009** NAIC Property/Casualty Risk-Based Capital formula in an instructional format that should be helpful to anyone: (a) responsible for submitting data to the NAIC and/or the states or (b) responsible for computing the RBC for an individual company.

This formula is an important tool for regulators. Determining accurate and timely data is an extremely important part of this process. This is most likely to occur when everyone, from the company CEO to the individual preparing the data, has a basic understanding of the formula. *While this report provides this understanding in a concise package, it is strongly recommended that the person or persons preparing and entering the information be senior company officials with a good understanding of the financial aspects of property/casualty insurance. It is also recommended that companies seek the assistance of their independent accountants and/or actuaries when preparing the risk-based capital report.*

## WHAT'S IN THE REPORT

Certain terms relating to risk-based capital, used in this report, are defined in the Risk-Based Capital (RBC) for Insurers Model Act.

Generally, each narrative section discusses a different segment of the formula (e.g., there is a narrative on Bonds and a narrative on Underwriting Risk). The formula itself is presented in worksheet form in a separate section of this booklet immediately following this narrative. The formula pages are broken down into sections as follows:

- 1) Company Information (Jurat Page)
- 2) Affiliated Stocks and Bonds
- 3) Unaffiliated Assets
- 4) Credit Risk and Health Credit Risk
- 5) Underwriting Risk
- 6) Life RBC Formula Application for P&C Company's A&H Business
- 7) Total Adjusted Capital

Most narrative pages have a brief summary of the background of the development of the factors, called the "Basis of the Factors." Development of certain factors required sophisticated modeling techniques but the basic concepts are not complicated. Many sections of this report include a section on "Specific Instructions for Application of the Formula"

which serves as a guide for those who assemble the data or analyze the results of the formula. It includes definitions and explanations for specific items that should be calculated, clarifications on the intent of the structure of certain sections of the formula, and instructions on reconciliation of certain totals.

Annual statement sources referred to in this report and on CD-ROM do not use parentheses; i.e., a reference to Page 2, Line 19, Column 1 in the annual statement will read P2 L19 C1. Annual statement references will begin with a page number only for pages 2 and 3. Otherwise the reference will be an Exhibit number or description (e.g., Exhibit 1), a schedule letter (e.g., Schedule D) or a name of an Exhibit or Schedule (e.g., U&I Exhibit—Part 1 B). This is to avoid the necessity of changing page numbers for references in the future. References to sources in this report will use parentheses around the line and column number. A reference to Miscellaneous Assets, Line 9, Column 2 in this report will read Miscellaneous Assets L(9) C(2).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Each company has the opportunity to prepare a written analysis of its risk-based capital results. A company may explain special situations as it deems warranted. Companies should also give explanations where totals of line items do not reconcile with totals that are referenced to annual statement sources. This written analysis should not be construed as the “RBC Plan” required in the Risk-Based Capital (RBC) for Insurers Model Act.

### **APPLICABILITY OF NAIC PROPERTY/CASUALTY RBC REPORT**

The NAIC Property/Casualty RBC Report has been developed for U.S. property/casualty and accident and health insurers who file the NAIC property/casualty annual statement blank (yellow blank). Monoline financial guaranty insurers, monoline mortgage guaranty insurers and title insurers are not subject to risk-based capital. In some states, U.S. companies that write only alien business may be excluded from risk-based capital requirements. In addition, states in which Blue Cross/Blue Shield and similar organizations file the yellow blank may decide to exempt these companies from filing an RBC report based on the extent to which the operations of these entities are different from conventional insurers’ individual and group health insurance operations. Other single state specialty insurers not subject to rules applicable to property/casualty insurers may also be exempt. If there are any questions related to this issue, contact the domiciliary state of the insurer.

### **CHANGES TO THE FORMULA**

Changes to the formula may be made necessary by annual statement presentation, accounting procedures and refinement of the formula. All such changes will be determined by the NAIC Capital Adequacy (E) Task Force.

### **HOW TO SUBMIT DATA**

Printed RBC reports and electronic submissions should be submitted as specified in the individual state filing checklists. There may be places where the screen display of the RBC program and the printout format vary slightly from the booklet. In those instances, the booklet should explain the differences; however, the overall calculation will be the same.

### **WORKPAPERS**

Workpapers needed to prepare this report should be retained and available for examination in accordance with record retention requirements of the domestic state laws or regulations.

### **QUESTIONS**

Contact Eva Yeung by phone at 816-783-8407 or by e-mail at [eyeung@naic.org](mailto:eyeung@naic.org) for RBC formula questions.

## AFFILIATED STOCKS AND BONDS

PR002 – PR004

There are fifteen categories of subsidiary and affiliated investments that are subject to RBC requirement for common stock, preferred stock, and bond holdings. Those fifteen categories are:

1. Directly Owned P&C Insurance Affiliates Subject to RBC
2. Directly Owned Life Insurance Affiliates Subject to RBC
3. Directly Owned Health Insurance Affiliates Subject to RBC
4. Indirectly Owned P&C Insurance Affiliates Subject to RBC
5. Indirectly Owned Life Insurance Affiliates Subject to RBC
6. Indirectly Owned Health Insurance Affiliates Subject to RBC
7. Investment Affiliates
8. Directly Owned Alien Insurance Affiliates
9. Indirectly Owned Alien Insurance Affiliates
10. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates
11. Investments in Upstream Affiliate (Parent)
12. P&C Insurance Affiliates Not Subject to RBC
13. Life Insurance Affiliates Not Subject to RBC
14. Health Insurance Affiliates Not Subject to RBC
15. Other Affiliates

Enter applicable items for each affiliate in the Details for Affiliated Bonds and Stocks worksheet. The program will automatically calculate the RBC charge for each affiliate. When the data is uploaded to the NAIC database, it will be cross-checked and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The diskette will display the number of subsidiaries and affiliates. These numbers should be reviewed to ensure that all subsidiaries and affiliates are appropriately reported.

Affiliated investments fall in to two broad categories: (a) Insurance Affiliates that are Subject to RBC; and (b) Affiliates that are Not Subject to RBC. The RBC for these two broad groups differs, therefore, the general treatment is explained below.

### Insurance Affiliates that are Subject to RBC

For those insurance affiliates of the reporting company that are reported under the equity method, and for which unamortized admitted goodwill is zero or non-existent for the reported book/adjusted carrying value, the RBC charge of the ownership of common stock in these affiliates is limited to the lesser of (a) the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock; or (b) the common stock book/adjusted carrying value greater than zero at which the affiliate is carried. To establish the percentage of ownership of common stock, the book/adjusted carrying value of the insurance affiliate must be entered in Column (5) of the appropriate worksheet and the total outstanding common stock of that affiliate must be entered in Column (7).

For all other insurance affiliates of the reporting company, the RBC charge of the ownership of common stock in these affiliates consists of two components:

- (1) The  $R_0$  component, which is limited to the lesser of (a) the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock; or  
(b) the statutory surplus of the affiliate times the percentage of ownership of total common stock.

(2) The R<sub>2</sub> component, which is computed in the following manner:

If the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock is greater than the book / adjusted carrying value, the R<sub>2</sub> component is set equal to the amount of the book / adjusted carrying value of the common stock that exceeds the value obtained from the R<sub>0</sub> component (step (1)(b) above).

Otherwise, the R<sub>2</sub> component is set equal to the larger of (a) 22.5 percent times the excess of book / adjusted carrying value over the pro rata statutory surplus value for the affiliate; and (b) the amount that Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock exceeds the value obtained from the R<sub>0</sub> component.

In any case, the R<sub>2</sub> component is limited to a floor of zero.

The RBC charge for ownership of preferred stock on these affiliates is somewhat more complex and depends on whether there is *excess RBC* over and above the total value of the outstanding common stock. Excess RBC is defined as the amount that the Total RBC After Covariance of the affiliate exceeds the common stock book/adjusted carrying value for the investment in that affiliate. If the Total RBC After Covariance of the affiliate is less than the common stock book/adjusted carrying value for the investment in that affiliate, then there is no excess RBC and there is no RBC charge for the ownership of the preferred stock. If there is excess RBC, then the charge for ownership of the preferred stock is the lesser of (a) the pro rata share of the excess RBC; or (b) the reporting company's book/adjusted carrying value of the preferred stock greater than zero. The pro rata ownership of preferred stock is the ratio of the affiliate's preferred stock in Column (10) of the affiliated worksheet to the value of all outstanding preferred stock in Column (11). The pro rata share is multiplied by the excess RBC and compared to the carrying value of preferred stock in Column (10).

The RBC charge for ownership of bonds in these affiliates is based on *excess RBC* to the extent that the Total RBC After Covariance of the affiliate exceeds both the common stock book / adjusted carrying value for the investment in that affiliate and the total outstanding preferred stock of the affiliate. If that situation occurs, then the RBC charge for ownership of those bonds is calculated by multiplying the pro rata ownership of the bonds times the excess RBC and then comparing that figure to the book/adjusted carrying value of the bonds. The carrying value of bonds must be entered in Column (13) of the appropriate affiliated worksheet and the total outstanding value of bonds must be entered in Column (14). The RBC charge for ownership is the lesser of the pro rata excess RBC or the carrying value of the bonds that is greater than zero.

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 7) by the percentage of ownership (found in Schedule D - Part 6 - Section 1, Column 9). For example:

Co	Affiliated Insurance Company	Owner's Book / Adjusted Carrying Value	Percentage Ownership	St	Total Common Stock Outstanding
Affiliate	#1	\$1,000,000	100%		\$1,000,000
Affiliate	#2	\$1,000,000	75%		\$1,333,333
Affiliate	#3	\$1,000,000	50%		\$2,000,000
Affiliate	#4	\$1,000,000	25%		\$4,000,000
Affiliate	#5	\$1,000,000	10%		\$10,000,000

In some instances, a company may own preferred stock or bonds in an affiliate subject to RBC yet hold no common stock, or may own bonds but no common or preferred stock. In those instances, the company must compute the notional value of the outstanding value of the affiliate's common and/or preferred stock to determine if there is any excess RBC or excess RBC. Valuation of the total outstanding common and preferred stock must be based on one of the accepted methods outlined in the *Purposes and Procedures of the NAIC Securities Valuation Office*.

\*In the rare case where Total RBC After Covariance exceeds the carrying value (market), which in turn exceeds statutory surplus, the formula will apply 100 percent of the difference between the market and surplus values as an additional RBC charge to the  $R_2$  component. The amount of statutory surplus (adjusted for percentage ownership) continues to be added to the formula's  $R_0$  component.

Also, note that the formula compares the amount generated by 22.5 percent of market carrying value less statutory surplus to the amount of RBC After Covariance less statutory surplus and increases the  $R_2$  component by the larger amount. This is done in order to satisfy the initial requirement that the RBC charge for ownership of such common stock is limited to the lesser of RBC After Covariance or the financial statement carrying value of the insurer (both adjusted for percentage ownership). The situation can occur where the market carrying value is greater than RBC After Covariance, which in turn is greater than statutory surplus, which leads to the need to make this comparison.

#### Directly Owned U.S. Property & Casualty Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. property & casualty insurance affiliates in the Directly Owned U.S. Property & Casualty Insurance Affiliates worksheet. For each affiliate enter its name, affiliate code, NAIC company code, affiliate's Total RBC After Covariance, book/adjusted carrying value of the common stock from Schedule D Part 6 Section 1, and total outstanding common stock of that affiliate in Columns (1) through (8). The required RBC will be automatically calculated by the program. If no value is entered in the Total Value of Affiliate's Common Stock column, Column (7), then the program will assume 100 percent ownership. If the reporting company does not own any of the affiliate's common stock but does own either preferred stock or bonds, the Total Value of Affiliate's Common Stock must be entered in Column (7) so that the program can calculate whether any excess RBC exists. The RBC charge for the ownership of the affiliate's common stock will be automatically calculated; however, the required RBC cannot exceed the book/adjusted carrying value of the common stock in Column (5).

The book / adjusted carrying value of any preferred stock must be entered in Column (10) and the total outstanding value of the affiliate's preferred stock must be entered in Column (11). Again, the percentage of ownership and the RBC required for the ownership of preferred stock will be automatically calculated. Even if the reporting company does not own any of the affiliate's preferred stock, the total outstanding value of that affiliate's preferred stock must be entered so that the program will correctly calculate any excess RBC.

Finally, the book/adjusted carrying value of any bonds that the reporting company owns must be entered in Column (13) and the total amount of the affiliate's bonds outstanding must be entered in Column (14). Remember that the RBC for the ownership of bonds is based on excess RBC. If there is no excess RBC, then there is no RBC charge for those affiliated bonds.

The risk-based capital to be entered for each affiliate property and casualty insurer should be obtained by using a separate copy of the RBC program for each affiliate. Monoline financial guaranty insurers, monoline mortgage guaranty insurers and title insurers are not subject to risk-based capital. These affiliates and other similar affiliates should be reported as P&C Insurance Affiliates Not Subject to RBC.

#### Directly Owned U.S. Life Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. life insurance affiliates in the schedule for directly owned companies in the Affiliated Bonds and Stock worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a U.S. life insurance affiliate is not subject to RBC, then it should be treated as Life Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Life affiliate should be obtained by using a separate copy of the Life RBC program for each affiliate.

Directly Owned Health Insurance Affiliates

Enter information regarding any top-layer directly owned Health Insurance affiliates in the schedule for directly owned companies in the Affiliated Bonds and Stock worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a HEALTH INSURANCE affiliate is not subject to RBC, then it should be treated as Health Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Health Insurance affiliate should be obtained by using a separate copy of the Health RBC program for each affiliate.

Indirectly Owned U.S. P&C Insurance Affiliates

The first step in entering information on indirectly owned U.S. insurance affiliates that are subject to RBC is to allocate the reporting company's book/adjusted carrying value of the holding company between any top-layer, indirectly owned insurance affiliates and the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. To do that, the carrying value of the holding company is first allocated based on the values shown on the holding company's balance sheet. The following example shows a hypothetical holding company, Holder Inc., that is 100 percent owned by Bigun Insurance Company and shows the allocation of Holder's carrying value among these categories:

Balance Sheet Holder, Inc. 12/31/XXXX			
ABC Life	\$4,000,000	Long-Term Debt	\$14,000,000
XYZ Casualty	\$2,000,000	Other Liabilities	\$5,000,000
Non-U.S. Casualty	\$6,000,000		
GX Todd Real Estate	\$4,000,000		
Cash \$5,000,000		Equity	\$5,000,000
Other Assets	\$3,000,000		
<b>Total Assets</b>	<b>\$24,000,000</b>	<b>Total Liab &amp; Equity</b>	<b>\$24,000,000</b>

Since ABC Life Insurance Company makes up 1/6 (\$4,000,000/\$24,000,000) of the total assets for Holder, Inc., then this indirectly owned U.S. affiliate represents 1/6 of the carrying value of Holder, Inc. on the statement of Bigun Insurance Company. Similarly, the indirectly owned U.S. affiliate XYZ Casualty represents 1/12 of the carrying value (\$2,000,000/\$24,000,000) of Holder on Bigun's annual statement. Non-U.S. Casualty, which is an alien insurance affiliate, represents 1/4 of the carrying value (\$6,000,000/\$24,000,000) of Holder on Bigun's annual statement. One-half of the carrying value of Holder, Inc. (\$12,000,000/\$24,000,000) represents the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. If Bigun Insurance Company carries Holder, Inc. on its annual statement at \$30,000,000 (assume that this is the current fair value of shares in Holder, which was a publicly traded corporation of which Bigun has just acquired 100 percent ownership), then Bigun will allocate 1/6 of that \$30,000,000 to ABC Life, 1/12 of that \$30,000,000 to XYZ Casualty, 1/4 of that \$30,000,000 to Non-U.S. Casualty, and 1/2 to Holder under the category Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC charge for the indirect ownership of common stock in ABC Life will be computed as the lesser of ABC Life's Total RBC After Covariance or \$5,000,000 (1/6 of \$30,000,000). The RBC charge for the indirect ownership of XYZ Casualty will be the lesser of XYZ's Total RBC After Covariance or \$2,500,000 (1/12 of \$30,000,000).

If Bigun only acquired 50 percent of the shares of Holder, then these values must be adjusted to reflect Bigun's partial ownership and a determination made as to the nature of the carrying value of Holder. If Holder's carrying value is based on other than fair value, then the allocations follow as described in (a). If the carrying value of Holder is based on its fair value, then the allocations and any additional RBC due to the use of fair value are described in (b).

- (a) Now the carrying value (not based on fair value) on Bigun's annual statement is \$15,000,000 which is allocated as \$2,500,000 to ABC Life (1/6 of \$15,000,000), \$1,250,000 to XYZ Casualty (1/12 of \$15,000,000) as Indirectly Owned U.S. Insurance Affiliates, \$3,750,000 to Non-U.S. Casualty (1/4 of \$15,000,000) as Indirectly Owned Alien Insurance Affiliate, and \$7,500,000 to Holder as the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC After Covariance for the indirectly owned U.S. insurance affiliates is also adjusted by 50% to reflect Bigun's percentage of ownership. Therefore, Bigun will enter \$2,500,000 as the carrying value for ABC Life in Column (5) and \$5,000,000 ( $\$2,500,000 / 0.50$ ) as the total outstanding common stock in Column (7).
- (b) In this example, the carrying value (based on fair value) on Bigun's annual statement is \$18,000,000, which will be allocated in the same manner described in (a) above. However, one additional step is added regarding the indirectly\* owned U.S. Insurance Affiliates that are subject to RBC. For example, assume that the carrying value (based on fair value) of ABC on Bigun's annual statement is larger than ABC's RBC After Covariance (prorated 50 percent for its partial ownership), the amount of Holder applicable to ABC Life (\$3,000,000: 1/6 of \$18,000,000) will be reduced by its statutory surplus\*\* (prorated 50 percent for its partial ownership), and if a positive amount results, then the larger of that amount times 22.5 percent or the excess of ABC's RBC After Covariance (prorated 50 percent for its ownership) over the value obtained from step (a) will be reported as a R2 component of such stock in the formula. The same will apply to XYZ Casualty.

The information for all top-layer, directly owned U.S. property and casualty insurance affiliates and indirectly owned U.S. life insurance affiliates is entered in the appropriate columns in the Affiliated Stocks and Bonds worksheet. For each affiliate enter its name, affiliate code, NAIC company code and the pro-rata share of risk-based capital along with all other information required in Columns (1) through (14). If the amount in Column (5) is based on fair value, then place an "F" in Column (6) and the affiliate's statutory capital and surplus (adjusted for ownership) in Column (8). The RBC charge (if any) will be calculated by the formula with the result appearing in Columns (16) and (17).

#### Indirectly Owned U.S. Life Insurance Affiliates

Indirectly owned U.S. life insurance affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

#### Indirectly Owned Managed Care Organizations

Indirectly owned Managed Care affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

#### Investment Affiliates

An investment affiliate is an affiliate that exists only to invest the funds of the parent company. The term investment affiliate is strictly defined in the annual statement instructions as any affiliate, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment affiliate shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. The RBC charge for the ownership of an investment affiliate is based on the RBC of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the P&C insurer held the assets directly.

Enter information regarding any investment affiliates. There will only be a charge for investments in bonds and preferred stocks of investment affiliates if the risk-based capital of the affiliate exceeds the book/adjusted carrying value of the affiliate's common stock. Any excess is first allocated to preferred stock. If such excess exceeds the book/adjusted carrying value of the preferred stock, it shall be allocated to bonds. Again, the basis for this calculation is the assumption that the charge should be the same as it would be if the P&C insurer held the assets directly.



\* This step also applies to directly owned U.S. Insurance Affiliates Subject to RBC.

\*\* The amount of total statutory surplus appearing on its filed annual statement as shown on Page 3, Line 38, Column 1 and Page 3, Line 35, Column 1 for life and property/casualty companies respectively.

#### Affiliates that are Not Subject to RBC

This category includes these categories of affiliated investments:

8. Directly Owned Alien Insurance Affiliates
9. Indirectly Owned Alien Insurance Affiliates
10. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates
11. Investment in Upstream Affiliate (Parent)
12. P&C Insurance Affiliates Not Subject to RBC
13. Life Insurance Affiliates Not Subject to RBC
14. Health Insurance Affiliates Not Subject to RBC
15. Other Affiliates

The RBC charge for these investments is calculated by multiplying a factor times the book/adjusted carrying value of the common stock, preferred stock and bonds of those affiliates.

#### Directly Owned Alien Insurance Affiliates

For purposes of this formula, the risk-based capital of each directly owned alien insurance affiliate is the annual statement carrying value of the reporting company's interest in the affiliate multiplied by 0.500. Enter information for any non-U.S. insurance affiliates, both life and property and casualty insurers. For each affiliate, enter the name of the affiliate, Alien Insurer Identification Number, the book/adjusted carrying value of common stock, preferred stock and bonds.

#### Indirectly Owned Alien Insurance Affiliates

The risk-based capital of each indirectly owned alien insurance affiliate is the carrying value of the holding company's interest in the affiliate multiplied by 0.500, and adjusted to reflect the reporting company's ownership on the holding company. In the prior example, in the case that Bigun acquired 100 percent of the shares of Holder, Bigun will enter \$7,500,000 (1/4 of \$30,000,000) as the carrying value for Non-U.S. Casualty and the RBC charge for the indirect ownership of this alien insurance affiliate will be \$3,750,000 (0.500 times \$7,500,000). In the case that Bigun only acquired 50 percent of Holder, Bigun will enter \$3,750,000 (50 percent of 1/4 of \$30,000,000) for Non-U.S. Casualty and the RBC charge for this indirectly owned alien insurance affiliate will be \$1,875,000 (0.500 times \$3,750,000).

#### Holding Company Value in Excess of Indirectly Owned Insurance Affiliates

The risk-based capital charge for the parent insurer preparing the calculation is a 22.5 percent charge against the holding company value in excess of the indirectly owned insurance affiliates as calculated in the prior example. Enter information in the appropriate columns of the worksheet, omitting those columns that do not apply (Column (3) – NAIC Company Code or Alien ID Number and Column (4) Affiliate's RBC After Covariance).

### Investment in Upstream Affiliate (Parent)

The risk-based capital for an investment in an upstream parent is 0.225 times the carrying value of the common and preferred stock and bonds, regardless of whether that upstream parent is subject to RBC. Enter the appropriate information in Columns (1) through (14).

### Property & Casualty Insurance Affiliates Not Subject to RBC

Insurance affiliates that are not subject to RBC, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guaranty insurers are classified as P&C Insurance Affiliates Not Subject to RBC. The risk-based capital for P&C Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock, preferred stock and bonds of those affiliates.

### Life Insurance Affiliates Not Subject to RBC

The risk-based capital for Life Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock, preferred stock and bonds of those affiliates.

### Health Insurance Affiliates Not Subject to RBC

The risk-based capital for Health Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock, preferred stock and bonds of those affiliates.

### Other Affiliates

Non-insurance affiliates and insurance affiliates that are not included elsewhere, are classified as Other Affiliates. The risk-based capital for an investment in an Other Affiliate is 0.225 times the carrying value of the common and preferred stock and bonds.

## UNAFFILIATED ASSETS

PR005 – PR013

### PR005 - Unaffiliated Bonds and Bond Size Factor Adjustment

#### Basis of General Bond Factors

These bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by rating category and that year’s economic environment.

The factors for Class 3 through 6 recognize that these bonds are marked to market.

#### Bond Size Factor

The size factor reflects additional modeling for different size portfolios that shows the risk increases as the number of bond issuers decreases. Because most insurers’ bond portfolios are considerably smaller than the portfolio used to develop the model bond risk, the basic bond factors understate the true default risk of these assets. The bond size factor adjusts the computed RBC for those bonds that are subject to the size factor to more accurately reflect the risk.

The bond size factor is to be multiplied by the risk-based capital of the bonds subject to the size factor. This calculation produces the *additional* RBC required for a portfolio that has less than 1,300 bonds in it. The bond size factor was developed as a step factor (as in a tax table) so that the overall factor decreases as the portfolio size increases. Bonds should be aggregated by issuer (the first six digits of the CUSIP number should be used for aggregation). In determining the total number of issuers, do not count:

- U.S. government bonds that are direct and guaranteed and backed by the full faith and credit of the U.S. government which receive a zero factor (see Annual Statement Instructions).
- Bonds in Class 1 (highest quality) which are issued by a U.S. government agency but that are not backed by the full faith and credit of the U.S. government. Examples of these bonds are: FNMA and FHLMC collateralized mortgage obligations.
- Bonds of parents, subsidiaries and affiliates.

The calculation shown below will not appear in the software but will be calculated automatically. However, you must enter the total number of issuers in the appropriate field on the CD-ROM. If you leave this field blank, the program will assume that there are less than 50 issuers and will default to the maximum bond size factor adjustment. The calculation to derive the bond size factor is:

		(a)	(b)		
	Source	No of Issuers			Wgt'd Issuers
First 50	Co Records	_____	X	2.5 =	_____
Next 50	Co Records	_____	X	1.3 =	_____
Next 300	Co Records	_____	X	1.0 =	_____
Over 400	Co Records	_____	X	0.9 =	_____
Total C	o Records	_____			_____

Size Factor = Total Weighted Issuers/Total No of Issuers less 1

## PR006 - Unaffiliated Preferred, Common Stock and Hybrid Securities

### Unaffiliated Preferred Stock

Detailed information on unaffiliated preferred stocks **and Hybrid Securities** are found in Schedule D Part 2 Section 1 **and Schedule D Part 1A Section 1** of the annual statement **respectively**. The preferred stocks and hybrid **securities** must be broken out by asset class (Class 1 through Class 6) and these individual groups are to be entered in the appropriate lines of the RBC software. The total amount of unaffiliated preferred stock reported should equal annual statement P2 L2.1 C3 less any affiliated preferred stock in Schedule D-Summary C1 **L18. The total amount of hybrid securities reported should equal annual statement Schedule D Part 1A Section 1 C6 L8.7.**

### Unaffiliated Common Stock

Unaffiliated common stocks are subdivided into non-government money market funds and all other unaffiliated common stocks. Non-government money market funds are more like cash than common stocks so it is appropriate to use the same factor as for cash. Amounts reported as non-government money market funds should reflect only those money market funds not qualifying for Schedule DA treatment. (Refer to the NAIC Annual Statement Instructions.) The factor for other unaffiliated common stock is based on studies that indicate a 10 percent to 12 percent factor is needed to provide capital to cover approximately 95 percent of the greatest losses in common stock value over a one-year future period. The higher factor of 15 percent contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

The total of all unaffiliated common stock reported should be equal to the total value of common stock in Schedule D-Summary C1 **L25** less **the sum of Schedule D-Summary C1 L18 and PR006, Column 1, Line 19.**

## PR007 - Other Long-Term Assets

### Real Estate

The Property & Casualty Risk-Based Capital Working Group adopted the factor of 10 percent developed for the Life RBC formula. Encumbrances have been included in the real estate base since the value of the property subject to loss would include encumbrances.

The total book/adjusted carrying value of real estate reported should equal the total of Lines 4.1, 4.2 and 4.3, Column 3 on Page 2 of the annual statement plus the insert amounts on the same lines.

### Mortgage Loans on Real Estate

The Property & Casualty Risk-Based Capital Working Group adopted a factor of 5 percent based upon the factors developed by the Life RBC formula, which ranged from 3 percent to 20 percent.

The book/adjusted carrying value of mortgage loans reported should equal Page 2, Line 3.1, Column 3 + Page 2, Line 3.2, Column 3 of the annual statement.

### Schedule BA Assets (Other Invested Assets – excluding collateral loans)

Other Invested Assets are those that are listed in Schedule BA and are somewhat more speculative and risky than most other investments. The factor for Schedule BA assets excluding collateral loans is 20%.

The book/adjusted carrying value of total Schedule BA assets (including collateral loans) should equal Page 2, Line 7, Column 3 of the annual statement.

## PR008 - Miscellaneous Assets

Collateral loans and write-ins are generally a small proportion of total portfolio value. A factor of 5 percent is consistent with other risk-based capital formulas studied by the working group.

The factor for cash is 0.3%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.3% factor, equivalent to an unaffiliated Class 1 bond, reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

If the book/adjusted carrying value of Aggregate Write-ins for Invested Assets (Page 2, Line 9, Column 3 of the annual statement) is less than zero, the RBC amount will be zero.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount entered here should equal the total short-term investments found in Schedule DA Part 1 **C8 L8399999** less bonds that are contained in Schedule D Part 1A Section 1.

## **PR009 - REPLICATION (SYNTHETIC ASSET) TRANSACTIONS AND MANDATORILY CONVERTIBLE SECURITIES**

### *Basis of Factors*

A replication (synthetic asset) transaction is a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a replication (synthetic asset) transaction. All replication transactions must be reviewed and approved by the NAIC Securities Valuation Office and assigned an RSAT number. The transactions are disclosed in Schedule DB Part F.

A replication (synthetic asset) transaction increases the insurer's exposure to one type of asset, the replicated (synthetic) asset, and may reduce the insurer's exposure to the asset risk associated with the cash market components of the transaction. Both effects are captured and quantified in the worksheet for replication transactions.

For the purposes of this worksheet, a mandatorily convertible security is a security that is mandatorily convertible at prices different from the market prices at the time of conversion. Such securities are classified on the annual statement by ignoring the conversion feature. This worksheet adjusts the RBC requirement upward if the security that results from the conversion is more risky than the original security.

### *Specific Instructions for Application of Formula*

This worksheet should contain a line for each replicated (synthetic) asset and each cash instrument component of all replication (synthetic asset) transactions undertaken by the insurer. It should also contain a line for each mandatorily convertible security and a line for the security that will result from the conversion. The assets should be sorted first by RSAT number, next by type (replicated assets first, then cash instruments) and finally by CUSIP.

### Column (1)

The RSAT number for each transaction should be that used in Schedule DB, Part F, Section 1. Leave this column blank for mandatorily convertible securities.

### Column (2)

Enter an R (for replicated asset) if the line describes one of the replicated (synthetic) assets, a CW (for cash instrument with RBC credit) if the line describes one of the cash instruments constituting the transaction and the transaction either (1) is a swap of prospectively determined interest rates; or (2) eliminates the asset risk associated with the cash instrument, and a CN (for cash instrument with no RBC credit) if the line describes one of the cash instruments constituting the transaction and the transaction does not eliminate the

insurer's exposure to the asset risk associated with the instrument. Enter an MC for a mandatorily convertible security and an MCC for the security that will result from the conversion.

Column (3)

Show the CUSIP for all cash instruments that are securities, all mandatorily convertible securities and all securities that will result from a mandatory conversion.

Column (4)

Give the description of the replicated (synthetic) asset(s) or cash instruments as found on Schedule DB, Part F, Section 1. Leave blank for mandatorily convertible securities.

Column (5)

Give the NAIC designation or other description that will best identify the asset risk class of the asset. For replications (synthetic assets), this is contained in Column 3 or 12 of Schedule DB, Part F, Section 1.

Column (6)

Give the statement value of the asset. For replications (synthetic assets), this is contained in Column 4 or 10 of DB, Part F, Section 1.

Column (7)

For replicated (synthetic) assets and for the securities that will result from the conversion of a mandatorily convertible security, multiply the risk-based capital factor appropriate to the asset class of the replicated (synthetic) asset times the statement value contained in Column (6). For cash instrument components that qualify for a RBC credit and for mandatorily convertible securities, the amount contained in this column is the product of:

- (a) the risk-based capital factor appropriate to the asset class of the cash instrument or mandatorily convertible security, but not higher than the average risk-based capital factor for the replicated (synthetic) asset(s) or the securities that result from the conversion of the mandatorily convertible security, times
- (b) the statement value contained in Column (6), times
- (c) -1

For other cash instrument components, this column should contain zero.

PR010 - Asset Concentration

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an issuer of a security or a mortgage borrower, etc.). The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) of the 10 largest asset exposures excluding various low-risk categories or categories which already have a 30 percent factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the 10 largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: SVO Class 6 bonds, hybrids and preferred stock, affiliated common stock, affiliated preferred stock, affiliated bonds, property and equipment, U.S. government guaranteed bonds, SVO Class 1 bonds, hybrids or preferred stock, any other asset categories with risk-based capital factors less than 1 percent, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting company is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the Investment Company Act and providing this information upon request of the commissioner, director or superintendent of the department of insurance. The reporting company is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the commissioner, director or superintendent upon request.

The assets that ARE INCLUDED in the calculation are divided into two categories – Fixed Income Assets and Equity Assets. The following asset types should be aggregated to determine the 10 largest issuers:

FIXED INCOME ASSETS

- Unaffiliated Bonds – Asset Class 2
- Unaffiliated Bonds – Asset Class 3
- Unaffiliated Bonds – Asset Class 4
- Unaffiliated Bonds – Asset Class 5
- Collateral Loans**
- Mortgage Loans**

EQUITY ASSETS

- Unaffiliated Preferred Stock – Asset Class 2
- Unaffiliated Preferred Stock – Asset Class 3
- Unaffiliated Preferred Stock – Asset Class 4
- Unaffiliated Preferred Stock – Asset Class 5
- Unaffiliated Hybrid Securities – Asset Class 2**
- Unaffiliated Hybrid Securities – Asset Class 3**
- Unaffiliated Hybrid Securities – Asset Class 4**
- Unaffiliated Hybrid Securities – Asset Class 5**
- Unaffiliated Common Stock
- Investment Real Estate
- Encumbrances on Inv. Real Estate
- Schedule BA Assets (excluding Collateral Loans)
- Receivable for Securities
- Aggr Write-ins for Invested Assets

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in C(2) Ls (01) through (06) for fixed income assets and C(2), Ls (08) through (21) for equity assets. Aggregate all similar asset types before entering the amount in C(2). For instance, if you own five separate \$1,000,000 Class 3 bonds from Issuer #1, enter \$5,000,000 in C(2)L(02) – Class 3 Unaffiliated Bonds.

PR011 - Credit Risk for Receivables

Reinsurance Recoverables

Reinsurance balances receivable on reinsurance ceded to non-affiliated companies (excluding certain pools) is subject to the credit risk-based capital charge. Since the annual statement requires that the collectability of reinsurance balances be considered via the reinsurance penalty, the appropriate balances must be offset by any liability that has been established for this purpose. The amount from Page 3, Line 16 should be allocated to the appropriate groups of insurers listed on Schedule F. If a balance for any Schedule F category is zero (i.e., Line 0399999), a penalty should not be entered for this category. Enter reinsurance penalty in Column (2), Lines (1) through (8) if applicable.

The factor for reinsurance recoverables (paid and unpaid less any applicable reinsurance penalty) is 10 percent. The risk-based capital for the various credits taken for reinsurance will not be less than zero even if the amount reported is negative. Recoverables from alien parents, subsidiaries and affiliates should be included. The following types of cessions are exempt from this charge:

- Cessions to State Mandated Involuntary Pools and Associations or to Federal Insurance Programs (Schedule F – Part 3, C15, Ls 0699999 and 1599999).
- This category includes all federal insurance programs (e.g., National Flood Insurance, Federal Crop Insurance Corp., etc., all state mandated residual market mechanisms and the National Counsel on Compensation Insurance.
- Cessions to U.S. Parents, Subsidiaries and Affiliates (Schedule F – Part 3, C15, Ls 0499999 and 1399999 less Ls 0399999 and 1299999).

The above categories are automatically excluded from the data that is pulled from the Annual Statement.

#### Miscellaneous Recoverables

There is risk associated with recoverability of amounts from creditors other than reinsurers. In addition to the default risk, there is the risk that the amounts are not accurately estimated. The factor to measure this risk is estimated at 5 percent for Federal Income Tax Recoverable; Amounts Receivable Relating to Uninsured Accident and Health Plans; Receivables from Parent, Subsidiaries and Affiliates; and Aggregate Write-ins for Other Than Invested Assets. For Interest, Dividends and Real Estate Income Due and Accrued, which for the most part represents interest income due and accrued from bond holdings, the charge is 1 percent, which is equivalent to the charge applicable to unaffiliated Class 2 bonds.

#### PR012 - Health Credit Risk

If the reporting company writes 5 percent or more of its premiums in A&H lines in **2007, 2008 or 2009**, this section of the formula must be completed. To determine if that applies, take the sum of Lines 13, 14, and 15 of the Underwriting and Investment Exhibit Part 1B Column 6 and divide by Line 35 Column 6, and round to three decimals for each individual year. If the result is at least 0.050 in any year, this exhibit and the appropriate Schedule P adjustment must be completed.

If the company writes less than 5 percent of its premiums in A&H lines in **2007, 2008 or 2009**, disregard this section.

#### *Basis of Factors*

The Health Credit Risk is an offset to some portions of the managed care discount factor. Since the managed care discount factor assumes that health risks are transferred to health care providers through fixed prepaid amounts, the Health Credit Risk compares these capitation payments to security the company holds. To the extent that the security does not completely cover the credit risk of capitated payments, a risk charge is applied to the exposed portion.

#### Capitations – Line (1) through Line (6)

Credit risk arises from capitations paid directly to providers or to intermediaries. The risk is that the company will pay the capitation but will not receive the agreed-upon services and will encounter unexpected expense in arranging for alternative coverage. The credit risk RBC requirement for capitations paid directly to providers is 2 percent of the amount of capitations reported as paid claims in PR019 Underwriting Risk – Managed Care Credit. This amount is roughly equal to two weeks of paid capitations.

However, an insurer can also make arrangements with its providers that mitigate the credit risk, such as obtaining acceptable letters of credit or withholding funds. Where the insurer obtains these protections for a specific provider, the amount of capitations paid to that provider are exempted from the credit risk charge. A separate worksheet is provided to calculate this exemption, but an insurer is not obligated to complete the worksheet.



The credit risk RBC requirement for capitations paid to intermediaries is 4 percent of the capitated payments reported as paid claims in PR018 Underwriting Risk – Managed Care Credit. However, as with capitations paid directly to providers, the regulated insurer can eliminate some or all of the credit risk that arises from capitations to intermediaries by obtaining acceptable letters of credit or withheld funds.

*Specific Instructions for Application of the Formula*

Line (1) – Total Capitations Paid Directly to Providers

This is the amount reported in PR019 Underwriting Risk – Managed Care Credit Column (2) Line (5).

Line (2) – Less Secured Capitations to Providers

This includes all capitations to providers that are secured by funds withheld or by acceptable letters of credit equal to 8 percent of annual claims paid to the provider. If lesser protection is provided (e.g., an acceptable letter of credit equal to 2 percent of annual claims paid to that provider), then the amount of capitation is prorated. The exemption is calculated separately for each provider and intermediary. A sample worksheet to calculate the exemption is shown in Figure (1).

Line (3) – Net Capitations to Providers Subject to Credit Risk Charge

Line (1) minus Line (2).

Line (4) – Total Capitation to Intermediaries

From Line (6) and Line (7) of **PR020** Underwriting Risk – Managed Care Credit, this includes all capitation payments to intermediaries.

Line (5) – Less Secured Capitations to Intermediaries

This includes all capitations to providers that are secured by funds withheld or by acceptable letters of credit equal to 16 percent of annual claims paid to the provider. If lesser protection is provided (e.g., an acceptable letter of credit equal to 5 percent of annual claims paid to that provider), then the amount of capitation is prorated. The exemption is calculated separately for each provider and intermediary. A sample worksheet to calculate the exemption is shown in Figure (2) and Figure (3)

Figure 1)

<u>Capitations Paid Directly to Providers</u>		(A)	(B)	(C)	(D)	(E)
Number	Name of Provider	Paid Capitations During Year	Letter of Credit Amount	Funds Withheld	= $(B+C)/A$ Protection Percentage	= $A * \text{Min}(1, D/8\%)$ Exempt Capitations
1	Denise Sampson	125,000	5,000	0	4%	62,500
2	James Jones	50,000	5,000	0	10%	50,000
3	Dr. Dunleavy	750,000	5,000	50,000	7%	687,500
4	Dr. Clements	25,000	0	0	0%	0
5	All others	2,500,000				0
19999	Total to Providers	3,450,000	xxx	xxx	xxx	800,000

(Figure 2)

<u>Capitations Paid to Un-regulated Intermediaries</u>		(A)	(B)	(C)	(D)	(E)
Number	Name of Provider	Paid Capitations During Year	Letter of Credit Amount	Funds Withheld	=(B+C)/A Protection Percentage	=A*Min(1,D/16%) Exempt Capitations
1 M	ercy Hospital	2,500,000	200,000	300,000	20%	2,500,000
2 General		1,000,000	100,000	0	10%	625,000
3 Phy	sicians Clinic	4,500,000	0	500,000	11%	3,125,000
4 Joe'	s HMO	3,500,000	0	0	0%	0
5 Al	l others	2,500,000				0
29999	Total to Unregulated Intermediaries	14,000,000	xxx	xxx	xxx	6,250,000

(Figure 3)

<u>Capitations Paid to Regulated Intermediaries</u>		Paid Capitations	Domiciliary State	Exempt Capitations
Number	Name of Provider	During Year		
1 Fred'	s HMO	2,500,000	NY	2,500,000
2	Blue Cross of Guam	50,000	GU	50,000
39999	Total to Regulated Intermediaries	2,550,000	xxx	2,550,000
99999	Total of Figures (1), (2) and (3)	20,000,000	xxx	9,600,000

Divide the "Protection Percentage" by 8 percent (providers) or by 16 percent (un-regulated intermediaries) to obtain the percentage of the capitation payments that are exempt. If the protection percentage is greater than 100 percent, the entire capitation payment amount is exempt. All capitations to regulated intermediaries qualify for the exemption.

The "Exempt Capitation" amount from Line 19999 of \$800,000 would be reported on Line (2) "Less Secured Capitations to Providers" in PR012 Health Credit Risk. The total of the "Exempt Capitation" amount from Line 29999 plus Line 39999 (\$6,250,000+\$2,550,000=\$8,800,000) would be reported on Line (5) "Less Secured Capitations to Intermediaries" in PR012 Health Credit Risk.

#### Line (9) – Other Medical Costs Paid through ASC Arrangements

ASC is considered to have a separate credit risk related to the use of the company's funds with an expectation of later recovery of all amounts from the contract-holder. Line (9) applies a small factor to amounts reported as incurred claims for ASC contracts and separately for other medical costs. This separation allows for the cross-checking of incurred claims between Schedule H and the RBC filing.

## PR013 - Miscellaneous Off-Balance Sheet Items

Off-balance sheet items, such as contingent liabilities, pose a risk to insurers. A 1 percent factor was chosen on a judgment basis to allow for this risk. For securities lending programs, a reduced charge may apply to certain programs that meet the criteria as outlined below.

### *Specific Instructions for Application of the Formula*

#### Line (1)

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risk associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
  - a. Documented investment guidelines between lender and investment manager with established procedure for review of compliance.
  - b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
  - c. Approved borrower lists and limits to allow for adequate diversification.
  - d. Holding excess collateral with margin percentages in line with industry standards which are currently 102% (or 105% for cross currency loans).
  - e. Daily mark-to-market of lent securities and obtaining additional collateral needed to maintain margin of 102% of market.
  - f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities lending agreement (standard “Master Securities Lending Agreement” from Securities Industry and Financial Markets Association) in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1 rated securities. Affiliate issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories Part 1, Line 22.5 of the Annual Statement should be included on Line (1).

#### Line (2)

Collateral from all other securities lending programs should be reported in General Interrogatories Part 1, Line 22.6 and included in Line (2).

#### Lines (3) through (11)

Non controlled assets are any assets reported on the balance sheet that are not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force.

#### Line (13)

Guarantees for affiliates include guarantees for the benefit of an affiliate which result in a material contingent exposure of the company’s assets to liability. The definition of “material” exposure or financial effect is the same as for annual statement disclosure requirements.

#### Line (14)

Contingent liabilities include any material contingent liabilities that are disclosed in the Notes to Financial Statements. *This category includes all structured securities for which the company has not received a full release from liability from a third party.*

## **PR014 - Off-Balance Sheet Collateral**

Security lending programs are required to maintain collateral. Some entities post the collateral supporting security lending programs on their financial statements, and incur the related risk charges on those assets. Other entities have collateral that is not recorded on their financial statements. While not recorded on the financial statements of the company, such collateral has risks that are not otherwise captured in the RBC formula.

The collateral in these accounts is maintained by a third party (typically a bank or other agent). The collateral agent maintains on behalf of the company detail asset listings of the collateral assets, and this data is the source for preparation of this schedule. The company should maintain such asset listings, at a minimum CUSIP, market value, book/carrying value, and maturity date.

The asset risk charges are derived from existing RBC factors for bonds, preferred and common stocks, other invested assets, and invested assets not otherwise classified (aggregate write-ins).

### *Specific Instructions for Application of the Formula*

Off-balance sheet collateral included in General Interrogatories Part 1, Lines 22.5 and 22.6 of the Annual Statement should agree with Line (20).

Lines (1) through (9) – Bonds

Bond factors described on PR005 – Unaffiliated Bonds and Bond Size Factor Adjustment

Line (10) through (16) – Preferred Stocks

Preferred stock factors described on PR006 – Unaffiliated Preferred and Common Stock

Lines (17) – Common Stock

Common stock factors described on PR006 – Unaffiliated Preferred and Common Stock

Line (18) – Schedule BA - Other Invested Assets

Other invested asset factors described on PR007 – Other Long-Term Assets

Line (19) – Aggregate Write-ins for Other Invested Assets

Aggregate write-ins for other invested assets factor described on PR008 – Miscellaneous Assets

## PR015 - Excessive Premium Growth

Studies have shown that rapidly growing companies tend to have larger reserve deficiencies than other insurers with more normal growth. Companies with an average annual premium growth rate of more than 10 percent will be charged with additional risk-based capital to reflect this additional risk. For members of a group, the growth rate is based on a group growth rate rather than the individual member's growth rate. A group consists of all Property and Casualty companies with the same NAIC Group Code number. Enter four years of group gross written premiums for the current year group code even though the reporting company was not part of the group for all years. If the reporting company is not a member of a group, the premium to be entered is the premium of the individual company. Enter both company written premiums and group written premiums if the reporting company is a member of a group.

Servicing Carriers may exclude Gross Written Premiums from involuntary pool business from the Group Gross Written Premium. In the context of residual markets and/or assigned-risk business, a servicing carrier is a licensed insurer that, either through a competitive bid process or by virtue of a state appointment, administers the business. Such administration may include policy issuance, billing and collection, rating, fraud control, medical management and claim payment. In general, the accounts are written on the servicing carriers paper; however, the results are pooled and distributed to all licensed companies (for that particular line of business) in the state, that are assessed by market share. The servicing carrier is paid a fee for the administrative services it provides. If the company for which this report is being prepared is part of a group of companies, enter the group adjustments in Column (4); otherwise, enter the individual company adjustments in Column (2). DO NOT DEDUCT PARTICIPATION IN RESIDUAL MARKET MECHANISMS. However, an adjustment is required for carriers that are servicing carriers for an assigned risk mechanism. Those carriers shall exclude gross written premiums from involuntary pool business for any of those years. That adjustment for the company and for the group must be entered on the appropriate lines in the program.

The growth rate used in this calculation is a three-year average growth rate of gross written premiums. Gross written premiums are direct written premiums plus written premiums assumed from non-affiliates and are calculated from the Underwriting and Investment Exhibit, Part 1B as the sum of Column 1, Line 35 plus Column 3, Line 35. The four most recent years of data are required to compute the growth rate. However, an adjustment is allowed for carriers which are servicing carriers for an assigned risk mechanism. Those carriers may exclude gross written premiums from involuntary pool business for any of those years. That adjustment for the company and for the group must be entered on the appropriate lines in the program.

In determining the gross written premium, all years of gross written premium should be included for any P&C affiliate that was acquired during the four-year period. Similarly, all years of gross written premium should be excluded for any P&C affiliate that was divested during the four-year period. The exception to this rule applies to a P&C affiliate acquired without the parent assuming any of the affiliate's liability obligations (i.e., the parent acquired a "shell" company). In that case, the gross written premiums of the acquired insurer(s) should be excluded. Similarly, if a P&C affiliate is divested but the parent retains the affiliate's liability obligations (that is, the parent divested a "shell" company), then the gross written premiums of that affiliate should remain in the parent's group gross written premiums.

When the data necessary to calculate a three-year average growth rate is not available, a two-year average growth rate should be calculated using the latest three years of premiums. If only the most recent two years of gross written premiums are available, then a one year average growth rate should be calculated. If the company has no gross written premiums in the latest year, then the growth rate will be set to zero. A default growth rate of 40 percent is used in the first year for a start-up company.

Each individual year's growth rate is capped at 40 percent. The Selected Average Growth Rate is the average of individual years' growth rates. The excess of the growth rate over 10 percent is the RBC Average Growth Rate Factor. This factor is multiplied by 0.45 to determine the excessive growth charge factor for loss and expense reserves and by .225 to determine the excessive growth charge factor for written premiums. The total amount of Loss & expense reserves from Schedule P Part 1-Summary C24 L12 is multiplied by 1,000 to bring it up to whole dollars, and this amount is entered on the appropriate line on the diskette to calculate the required RBC for excessive growth. The total net written premiums from the Underwriting and Investment Exhibit Part 1B L34 C6 are entered on the appropriate line to calculate the excessive growth for net written premiums.

## UNDERWRITING RISK

PR016 – PR017

Underwriting risk is the largest portion of the risk-based capital charge for most property casualty insurance companies and makes up approximately 80 percent of the aggregate industry risk-based capital. Underwriting risk is broken into two components in the RBC formula: the RBC charge calculated for reserves and the RBC charge applied against written premiums.

The reserve risk RBC is developed by multiplying a set of RBC factors, which are discounted for investment income and adjusted for each individual company's own relative experience, times the gross reserves for each of 19 major lines of business. A set of credits is available to these by-line RBC charges for loss-sensitive business. The aggregate reserve risk RBC is then adjusted to allow a credit for the amount of diversification among the 19 lines of business.

The 19 major lines of business largely correspond to the major breakdowns in Schedule P of the annual statement. Calculations for some lines are combined the occurrence form and claims made form of Other Liability (H1 and H2) are combined; the occurrence form and claims made form of Products Liability (R 1 and R2) are combined; and Reinsurance - Property and Reinsurance – Financial Lines (N and P) are combined.

Those lines used in the calculation and the applicable subsections of Schedule P are: Homeowners/Farmowners Multi Peril (A); Private Passenger Auto Liability and Medical Payments (B); Commercial Auto Liability (C); Workers Compensation (D); Commercial Multi Peril (E); Medical **Professional Liability**-Occurrence (F-Section 1); Medical **Professional Liability**-Claims Made combined (F-Section 2); Miscellaneous Liability (G); Other Liability–Occurrence and Other Liability–Claims Made combined (H–Section 1 and H–Section 2); Special Property (I); Auto Physical Damage (J); Other (Including Credit, Accident and Health) (L); Financial Guaranty/Mortgage Guaranty (S); Fidelity Surety (K); International (M); Reinsurance A and Reinsurance C (N and P); Reinsurance B (O); Products Liability–Occurrence; Products Liability–Claims Made combined (R–Section 1 and R–Section 2) and Warranty (T).

For any company that writes 5 percent or more of its business in the three accident and health lines (Group A&H, Credit A&H, and Other A&H) in the current year, or either of the two immediately preceding years, a separate calculation for health RBC is mandated, based on the life RBC formula.

The written premium RBC is developed by multiplying a factor times the current year's net written premiums, which are also broken down by line. The RBC factor for each line is based on the excess of a discounted combined ratio adjusted for investment income over 100 percent. As with the reserve risk factors, individual company experience is also considered in computing the RBC factor.

### PR016 - Underwriting Risk – Reserves

Line 01 – Industry Average Development – The factors for each line of business are provided by the NAIC and are shown on Line 01 of the Underwriting Risk-Based Capital Summary. These factors are based on the average loss and defense and cost containment expense reserve development of all reporting companies over the past nine years.

Line 02 – Company Development – For each line of business, the company development factor is defined as the ratio of the sum of the developed incurred losses and defense and cost containment expense from prior accident years evaluated as of the current year to the sum of the initial evaluations of these incurred losses and defense and cost containment expense. The company development factor is capped at 400 percent so that insurers are not unduly penalized for anomalous results. The calculation uses nine accident years for the long-tail lines of business, and the available years for the Reinsurance for Property, Liability and Financial Lines.

In some instances, the company is not allowed to use its own experience to adjust the industry loss and expense RBC factor. When any of the following conditions are true, then the company must set its company average development factor equal to the industry average development factor (i.e., Row 02 = Row 01):

1. The current incurred (Schedule P, Part 2, Column 10) for any accident year is less than or equal to zero; or
2. The initial incurred for any accident year (Schedule P, Part 2, along the diagonal) is negative; or
3. The sum of the initial incurred estimates is zero.

Line 03 is the ratio of Line 02 to Line 01. If the company is required to use the industry average experience (Row 02 = Row 01), this line is set at 1.000.

Line 04 – Industry Loss & Expense RBC Percent – These factors are designed to provide a surplus cushion against adverse reserve development. They are based on detailed analysis of historical reserve development patterns found in Parts 2 and 3 of Schedule P for each major line of business. The factors are provided by the NAIC and are shown on the Underwriting RBC Summary by line of business. NOTE: the factors are based on analysis of the combined data for Other Liability, Reinsurance for Property and for Financial Lines and Products Liability.

Line 05 – Company RBC Percent – This percentage is an equally weighted average of (a) the Industry Loss and Expense RBC percent in Line 04 adjusted by the Company Development to Industry Average Development Factor in Line 03 and (b) the Industry Loss and Expense RBC percent in Line 04. By using an equally weighted average, a measure of credibility is introduced to balance the company's experience with what would be considered "normal" for the industry.

Line 06 – Loss and Expense Unpaid – This is the net loss and loss adjustment expense unpaid by line of business from Schedule P, Part 1, Column 24.

Line 07 – Other Discount Amounts Netted Against Loss + Expense Unpaid in Schedule P, Part 1, Column 24 – The numbers reported in Schedule P, Part 1, Column 24 are supposed to be gross of discounts. However, in some instances in some lines, insurers are allowed to report their reserves net of tabular medical discounts. Non-tabular discounts are reported separately in Column 32 and Column 33 of Schedule P, Part 1, and the amount reflected in Column 24 should already be gross of those amounts. If an insurer's Column 24 reserves are net of any non-tabular discounts, those discount amounts should be in the appropriate field on the RBC software.

Line 08 – Adjustment for Investment Income – This discount factor assumes a 5 percent interest rate. For lines of business other than workers' compensation and the excess reinsurance lines, the payment pattern is determined using an IRS type methodology applied to industry-wide Schedule P data by line of business; otherwise, a curve has been fit to the data to estimate the average payout over time. The discount factor for workers' compensation is adjusted to reflect the tabular portion of the reserves that is already discounted. The factors are provided by the NAIC and are shown on the Underwriting RBC Summary by line of business.

Line 09 – Case Loss and Expense Risk-Based Capital – This represents the base required reserve capital after recognition of the time value of money in held undiscounted reserves but before the application of discounts for loss, sensitive business, claims, made business and business spread. If the gross reserves (Line 06 plus Line 07) are negative, then the RBC charge is set at zero.

Line 10 – Percent Loss Sensitive Direct Loss & Expense Reserves – A 30 percent discount to the Line 09 Base Loss and Expense RBC is allowed for loss-sensitive business that has been written directly. The by-line percentage found in Schedule P, Part 7A, Section 1, Column 3 is pulled via the vendor link or may be manually entered on the RBC software (for combined lines, the weighted average is used).

Line 11 – Percent Loss Sensitive Assumed Reserves – A 15 percent discount to the Line 09 Base Loss and Expense RBC is allowed for loss-sensitive business that has been assumed. The by-line percentage found in Schedule P, Part 7B, Section 1, Column 3 is pulled via the vendor link or manually entered on the RBC software (for combined lines, the weighted average is used).

Line 12 – Loss Sensitive Discount for Loss & Expense Reserves – This is the total discount for loss sensitive business, computed as  $[L(09) \times .30 \times L(10) + L(09) \times .15 \times L(11)]$ . Prior to the calculation, L(10) and L(11) are both capped at 100 percent. If L(10) or L(11) is negative, then that line is set to zero prior to the calculation of the total loss sensitive discount.

Line 13 – Loss and Expense RBC After Discounts – Calculated as  $L(09) - L(12)$ .

Line 14 – Loss Concentration Factor – A discount for spread of business is applied to the total Loss and Expense RBC After Discounts in C(16) L(13). This reflects the fact that a diversified portfolio of insurance is not likely to experience poor results in all lines simultaneously. The Loss Concentration Factor (LCF) is calculated from the separate Schedule P lines. When determining the largest line, claims-made and occurrence (Other Liability and Products Liability) loss and expense reserves should be combined. To calculate the LCF, the reserve for the largest line in Schedule P is divided by the total reserves in Schedule P, Part 1 Summary, and this amount is multiplied by 0.300 and then added to 0.700. If a company only writes one line of business, the ratio of that single line to the total reserves is 1.000 and the calculated LCF is also 1.000  $[(1.000 \times 0.300) + 0.700 = 1.000]$ . If a company's largest line of business makes up half of its total reserves, the calculation is  $[(0.500 \times 0.300) + 0.700 = 0.850]$ . In this second example, the company would receive a discount of 15 percent to its Loss and Expense RBC After Discounts.

Line 15 – Total Net Loss and Expense RBC –  $L(13) \times L(14) \times 1,000$ . Since the numbers in Schedule P are presented in 000's, the result here must be multiplied by 1,000 to bring it to whole dollars.

#### PR017 - Underwriting Risk – Written Premiums

Line 01 – Industry Average Loss and Expense Ratio – These factors are provided by the NAIC and are shown on the Underwriting RBC Summary by line of business. The factors are based on the historical experience of companies reporting to the NAIC and represent virtually all of the property casualty industry's loss experience.

Line 02 – Company Average Loss and Expense Ratio – For each line of business, this is defined as a straight average of a company's accident year loss and expense ratios. The number of accident years is included in the company average loss and expense ratio vary for different lines. For the 2009 annual statement, and the most recent 10 accident years (1998 to 2009) are used for all lines.

The company average loss and expense ratio is set equal to the industry average loss and expense ratio (i.e., Row 02 = Row 01) if any of the following conditions is true:

- 1) The loss and expense ratio for any accident year is zero or negative;
- 2) the net earned premium for any accident year is zero or negative.

Otherwise, the company average loss and expense ratio is calculated subject to a de minimus test. The de minimus test is intended to avoid unusual loss and expense ratios produced in years with low premium volumes. The procedure is:

If more than one year's net earned premium is less than 20 percent of the average net earned premium, a company is not eligible for an experience adjustment and Row 02 is set equal to Row 01. Otherwise, a company must exclude the year in which the net earned premium is less than 20 percent of the average net earned premium and take a straight average of the loss and expense ratios of the remaining years. In addition, each accident year loss and expense ratio must be capped at 300 percent before calculating the straight average.

For all lines, calculate the average net earned premium for the available years. If less than eight years' net earned premiums are greater than 20 percent of the average net earned premium, a company is not eligible for an experience adjustment and Row 02 is set equal to Row 01. Otherwise, a company must exclude years where the net earned



premium is less than 20 percent of the average net earned premium and take a straight average of the loss and expense ratios of the remaining years. In addition, each accident year loss and expense ratio must be capped at 300 percent before calculating the straight average.

Line 03 is the ratio of Line 02 to Line 01. If the company is required to use the industry average experience (Row 02 = Row 01), this line is set at 1.000.

Line 04 – Industry RBC Loss and Expense Ratio – The industry RBC loss and expense ratio factors are provided by the NAIC and shown on the Underwriting RBC Summary for each line of business.

Line 05 – Company RBC Loss and Expense Ratio – This ratio is an equally weighted average of (a) the Industry RBC Loss and Expense Ratio adjusted by the Company to Industry Ratio; and (b) the Industry RBC Loss and Expense Ratio.

Line 06 – Company Underwriting Expense Ratio – This is the ratio of other underwriting expense incurred found in the annual statement on P4 C1 L4 to total net written premium for the current year found in the Underwriting and Investment Exhibit Part 1B L35 C6. If the ratio is negative, it is reset to zero. Also, the ratio is capped so that it cannot exceed 400 percent.

Line 07 – Adjustment for Investment Income – This discount factor assumes a 5 percent interest rate. For lines of business other than workers' compensation and the excess reinsurance lines, the payment pattern is determined using an IRS-type methodology applied to industry-wide Schedule P data by line of business. For the workers' compensation and the excess reinsurance lines, the payment patterns were determined by fitting a curve to the data. Workers' compensation is adjusted to reflect the tabular portion of the reserves that is already discounted. These factors are provided by the NAIC and are shown on the Underwriting RBC Summary by line of business.

Line 08 – Net Written Premium – This is the current year net written premium from the Underwriting and Investment Exhibit–Part 1B in thousands of dollars, by line of business. The net written premium of Aggregate Write-ins for Other Lines of Business (Line 35) will be included in the Other Liability line. NOTE: Net Written Premium is reported in whole dollars in the UIEX1B, but is calculated in 000's by the Underwriting Risk – NWP.

Line 09 – Base Written Premium Risk-Based Capital – The company risk-based capital loss and expense ratio is adjusted for investment income and added to the company underwriting expense ratio. The excess of this result over 100 percent is applied to the company's current year net written premium to determine the Base Net Written Premium RBC prior to discounts being applied.

Line 10 – Percent Loss Sensitive Direct NWP – A 30 percent discount to the Line (09) Base NWP RBC is allowed for loss-sensitive business that has been written directly. The by-line percentage found in Schedule P, Part 7A, Section 1, Column 6 will be pulled via the vendor link or may be manually entered (for combined lines, the weighted average is used).

Line 11 – Percent Loss Sensitive Assumed NWP – A 15 percent discount to the Line (09) Base NWP RBC is allowed for loss-sensitive business that has been assumed. The by-line percentage found in Schedule P, Part 7B, Section 1, Column 6 will be pulled via the vendor link or may be manually entered (for combined lines, the weighted average is used).

Line 12 – Loss Sensitive Discount for NWP – This is the total discount for loss sensitive business, computed as  $[L(09) \times 0.30 \times L(10) + L(09) \times 0.15 \times L(11)]$ . Prior to the calculation, L(10) and L(11) are both capped at 100 percent. If L(10) or L(11) is negative, then that line is set to zero prior to the calculation of the total loss sensitive discount.

Line 13 – NWP RBC After Discounts – Calculated as  $L(09) - L(12)$ .

Line 14 – Premium Concentration Factor – A discount for spread of business is applied to the total NWP RBC After Discounts in C(19) L(13). This reflects the fact that a diversified portfolio of insurance is not likely to experience poor results in all lines simultaneously. The Premium Concentration Factor (PCF) is calculated from the separate Schedule P lines.

When determining the largest line, claim s-made and occurrence (Other Liability and Products Liability) net written premiums should be combined. To calculate the PCF, the NWP for the largest line in Schedule P is divided by the total NWP from the Underwriting and Investment Exhibit Part 1B, Line 35, Column 6, and this amount is multiplied by 0.300 and then added to 0.700. If a company only writes one line of business, the ratio of that single line to the total NWP is 1.000 and the calculated PCF is also 1.000 [  $(1.000 \times 0.300) + 0.700 = 1.000$  ]. If a company's largest line of business makes up one-fourth of its total NWP, the calculation is [  $(0.250 \times 0.300) + 0.700 = 0.775$  ] . In this second example, the company would receive a discount of 22.5 percent to its NWP RBC After Discounts.

Line 15 – Total NWP RBC – L(13) x L(14) x 1,000. Since the results in the RBC table are calculated in 000s, the result must be multiplied by 1,000 to bring it to whole dollars.

## LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS

### PR018 THROUGH PR024

If the reporting company writes 5 percent or more of its premiums in A&H lines in **2007, 2008 or 2009**, this section of the formula must be completed. To determine if that applies, take the sum of Lines 13, 14 and 15 of the Underwriting and Investment Exhibit Part 1B Column 6 and divide by Line 35 Column 6, and round to three decimals for each individual year. If the result is at least 0.050 in any year, this exhibit and the appropriate Schedule P adjustment must be completed.

If the company writes less than 5 percent of its premiums in A&H lines in **2007, 2008 and 2009**, disregard this section.

#### PR018 - Health Premiums

##### *Basis of Factors*

Risk-based capital factors for health insurance are applied to medical, disability income, long-term care insurance and other types of health insurance premiums and claim reserves with an offset for premium stabilization reserves. For health coverage that does not fit into one of the defined categories for risk-based capital, the "Other Health" category is to be used.

##### Medical Insurance Premium

The business is subdivided by product into categories for individual coverages and for group and credit coverages depending on the risk related to volatility of claims. The factors were developed from a model that determines the minimum amount of surplus needed to protect the company against a worst-case scenario for each type of coverage. The results of the model were then translated into either a uniform percentage or a two-tier formula to be applied to premium. The two-tier formula reflects the decreased risk of a larger in-force block. The formula includes several changes starting in 1999 for some types of health insurance. These changes add several additional worksheets and are designed to keep the RBC amounts for health coverage consistent regardless of the RBC formula used. If the company has Comprehensive Medical business, Medicare Supplement, Dental & Vision business, or **Stand-Alone Medicare Part D** coverage through a PDP arrangement, it will be directed to these additional worksheets. The instructions for including paid health claims in the various categories of the Managed Care Discount Factor Calculation can be found in the instructions to PR020 Underwriting Risk – Managed Care Credit. In appendix 1 of commonly used health insurance terms has been added to these instructions. Appendix 2 of these instructions lists commonly used terms of **Stand-Alone Medicare Part D** coverage. If the company has any of the three mentioned types of medical insurance, it will also be required to complete additional parts of the formula for Health Credit Risk and Health Administrative Expenses portion in PR021.

##### Disability Income Premium

Prior to 2001, the individual disability income factors were based on models of the disability risk completed by several companies with significant experience in this line. The group long-term disability income risk was modeled based on methodology similar to that used by one of the largest writers of this business. The pricing risk was addressed principally as the delayed reaction to increases in incidence of new claims and to the lengthening of claims from slower recoveries than assumed.

Starting in 2001, new categories and new factors are applicable to all types of disability income premiums. These factors are based on new data and apply a model similar to that used for other health premium risk to that data.

### *Specific Instructions for Application of the Formula*

The total of all earned premium categories PR018 Health Premiums, Line (26), Column (1) should equal the total in Schedule H, Part 1, Line 2, Column 1 of the Annual Statement. Earned premium for each of these coverages should be from underlying company records. Earned premium may be reported in Schedule H for Administrative Services Contract (ASC) and/or the Federal Employees Health Benefit Program (FEHBP) which are included in order that Line (26) will equal the total in Schedule H. As such, there is no RBC factor applied to any premium reported on lines (14), (23) or (24). For some of the coverages, two tier formulas apply. The calculations for these coverages shown below will not appear on the CD-ROM but will automatically be calculated by the software.

#### Line (1)

Health premiums for usual and customary major medical and hospital (including comprehensive major medical and expense reimbursement hospital/medical coverage) written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (1) Line (1.1).

#### Line (2)

Health premiums for Medicare supplement written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (2) Line (1.1).

#### Line (3)

Health premiums for dental or vision coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.1).

#### Line (3.1)

Health premium for **Stand-Alone Medicare Part D** coverage written on individual contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor payment adjustments. See Appendix 2 for definition of these terms. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (1). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR019 Underwriting Risk – **Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision**, Column (4) Line (1.1).

#### Line (3.2)

Health premium for Supplemental benefits within **Stand-Alone Medicare Part D** coverage written on individual contracts that is beneficiary payment (supplemental benefit portion) – e.g. coverage in the coverage gap, use of co-pay s of less value than the minimum regulatory coinsurance and reduced deductible. This does not include the low-income subsidy (cost sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within **Stand-Alone Medicare Part D** Coverage on PR018.

#### Line (4) and Line (11)

There is a factor for certain types of limited benefit coverage (Hospital Indemnity, which includes a per diem for intensive care facility stays, and Specified Disease) which includes both a percent of earned premium on such insurance (3.5 percent) and a flat dollar amount (\$50,000) to reflect the higher variability of small amounts of business.

#### Line (5) and Line (12)

There is a factor for accidental death and dismemberment (AD&D) insurance (where a single lump sum is paid) which depends on several items:

1. The maximum amount of retained risk for any single claim;

2. \$300,000 if three times the maximum amount of retained risk is larger than \$300,000;
3. 5.5 percent of earned premium to the extent the premium for AD&D is less than or equal to \$10,000,000; and
4. 1.5 percent of earned premium in excess of \$10,000,000.

There are places for reporting the total amount of earned premium and the maximum retained risk on any single claim. The actual RBC amount will be calculated automatically as the sum of (a) the lesser of items 1 and 2; plus (b) items 3 plus 4.

Line (6) and Line (13)

A 5 percent factor for Other Accident coverage provides for any accident based contingency other than those contained in Lines (5) or (12). For example, this line should contain all the premium for policies that provide coverage for accident only disability or accident only hospital indemnity. The premium for policies that contain AD&D in addition to other accident only benefits should be shown on this line.

Line (7)

Health premiums for usual and customary major medical and hospital (including comprehensive major medical and expense reimbursement hospital/medical coverage) written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (1) Line (1.2).

Line (8)

Health premiums for dental or vision coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.2).

Line (10)

Health premiums for Medicare supplement written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (2) Line (1.2).

Line (10.1)

Health premium for **Stand-Alone Medicare Part D** coverage written on group contracts only if the plan sponsor has risk corridor protection for the contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor protection payments. See Appendix 2 for definition of these terms. **Stand-Alone Medicare Part D** coverage written on group contracts without risk corridor protection is reported in Line (30) Other Health. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (9). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR019 Underwriting Risk – **Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision**, Column (4) Line (1.2).

Line (10.2)

Health premium for Supplemental benefits within **Stand-Alone Medicare Part D** coverage written on group contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible where the plan sponsor has risk corridor protection for the group contract's standard benefit design coverage. This does not include the low-income subsidy (cost-sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Part D Coverage on PR018.

Lines (15) through (24)

Disability income premiums are to be separately entered depending on category (Individual and Group). For Individual, a further split is between noncancellable (NC) or other (GR, etc.) For Group, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group

Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). For long-term care insurance, premiums are reported separately for Individual noncancellable, Individual (other than NC) and Group LTCL. The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below \$50,000,000 for similar types. Starting in 2001, in determining the premiums subject to the higher factors, individual disability income noncancellable and other is combined. All types of Group and Credit are combined in a different category from Individual. For long-term care, all types (Individual and Group) are combined.

The following table describes the calculation process used to assign RBC charges to disability income business. The reference to line numbers (e.g., Line 15) represent the actual line numbers used in the formula page, but the subdivisions of those lines [e.g., a), b), et c.] do not exist in the formula page. The total RBC Requirement shown in the last (Total) subdivision of each line will be included in Column (2) for that line in the formula page.

		Annual Statement Source	Statement	ent Value	Factor	RBC	Requirement
	<u>Disability Income Premium</u>						
<u>Line (15)</u>	Noncancellable Disability Income - Individual Morbidity	Earned Premium included in Schedule H, Part 1, Line 2, in part					
a)	First \$50 Million Earned Premium of Line (15)	Company Records			X 0.350 =		
b)	Over \$50 Million Earned Premium of Line (15)	Company Records			X 0.150 =		
c)	Total Noncancellable Disability Income - Individual Morbidity	a) of Line (15) + b) of Line (15), Column (2)					
<u>Line (16)</u>	Other Disability Income – Individual Morbidity	Earned Premium included in Schedule H, Part 1, Line 2, in part					
a)	Earned Premium in Line (16) [up to \$50 million less premium in a) of Line (15)]	Company Records			X 0.250 =		
b)	Earned Premium in Line (16) not included in a) of Line (16)	Company Records			X 0.070 =		
c)	Total Other Disability Income - Individual Morbidity	a) of Line (16) + b) of Line (16), Column (2)					
<u>Line (17)</u>	Disability Income - Credit Monthly Balance	Earned Premium included in Schedule H, Part 1, Line 2, in part					
a)	First \$50 Million Earned Premium of Line (17)	Company Records			X 0.200 =		
b)	Over \$50 Million Earned Premium of Line (17)	Company Records			X 0.030 =		
c)	Total Disability Income - Credit Monthly Balance	a) of Line (17) + b) of Line (17), Column (2)					
<u>Line (18)</u>	Disability Income – Group Long Term	Earned Premium included in Schedule H, Part 1, Line 2, in part					
a)	Earned Premium in Line (18) [up to \$50 million less premium in a) of Line (17)]	Company Records			X 0.150 =		
b)	Earned Premium in Line (18) not included in a) of Line (18)	Company Records			X 0.030 =		
c)	Total Disability Income – Group Long Term	a) of Line (18) + b) of Line (18), Column (2)					

<u>Line (19)</u>	Disability Income - Credit Single Premium with Additional Reserves	Earned Premium included in Schedule H, Part 1, Line 2, in part. This amount to be reported on Health Premiums, Line (19)	_____		
a)	Additional Reserves for Credit Disability Plans	PR018 Health Premiums Column (1) Line (27)	_____		
b)	Additional Reserves for Credit Disability Plans, Prior Year	LR018 Health Premiums Column (1) Line (28)	_____		
c)	Subtotal Disability Income - Credit Single Premium with Additional Reserves	Line (19) - a) of Line (19) + b) of Line (19)	=====		
d)	Earned Premium in c) [up to \$50 million less premium in a) of Line (17) + a) of Line (18)]	Company Records	_____	X 0.100 =	_____
e)	Earned Premium in c) of Line (19) not included in d) of Line (19)	Company Records	_____	X 0.030 =	_____
f)	Total Disability Income - Credit Single Premium with Additional Reserves	d) of Line (19) + e) of Line (19), Column (2)	=====		=====
<u>Line (20)</u>	Disability Income – Credit Single Premium without Additional Reserves	Earned Premium included in Schedule H, Part 1, Line 2, in part	_____		
a)	Earned Premium in Line (20) [up to \$50 million less premium in a) of Line (17) + a) of Line (18) + d) of Line (19)]	Company Records	_____	X 0.150 =	_____
b)	Earned Premium in Line (20) not included in a) of Line (20)	Company Records	_____	X 0.030 =	_____
c)	Total Disability Income – Credit Single Premium without Additional Reserves	a) of Line (20) + b) of Line (20), Column (2)	=====		=====
<u>Line (21)</u>	Disability Income – Group Short Term	Earned Premium included in Schedule H, Part 1, Line 2, in part	_____		
a)	Earned Premium in Line (21) [up to \$50 million less premium in a) of Line (17) + a) of Line (18) + d) of Line (19) + a) of Line (20)]	Company Records	_____	X 0.050 =	_____
b)	Earned Premium in Line (21) not included in a) of Line (21)	Company Records	_____	X 0.030 =	_____
c)	Total Disability Income – Group Short Term	a) of Line (21) + b) of Line (21), Column (2)	=====		=====
<u>Line (22)</u>	Noncancellable Long-Term Care Premium – Rate risk	Earned Premium (Schedule H, Part 1, Line 2, in part)	_____	X 0.100 =	_____

Line (25)  
Most Health Premium will have been included in one of the prior lines. In the event that some coverage does not fit into any of these categories, “Other Health” category is applied with a 12% factor, which is from 1998 formula for Other Limited Benefits Anticipating Rate Increases.

PR019 - Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental and Vision  
(Underwriting Risk – Experience Fluctuation Factor in the LRBC formula)

The underwriting risk generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this worksheet comes from PR020 Underwriting Risk - Managed Care Credit.

Description from *Life Risk-Based Capital Report Including Overview & Instructions*:

Underwriting risk is present when the next dollar of unexpected claims payments comes directly out of the company's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, an insurer may charge an individual \$100 in premium in exchange for a guaranty that all medical costs will be paid by the insurer. If the individual incurs \$101 in claims costs, the company's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the insurer is not at risk for excessive claims payments, such as when an insurer agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claims costs, so the risk of excessive claims experience is borne by the self-insured employer, not the insurer. The underwriting risk section of the RBC formula, therefore, requires some adjustments to remove non-risk business (both premiums and claims) before the RBC requirement is calculated.

For **Stand-Alone Medicare Part D** Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, new Lines (10.1) through (10.4) of PR020 will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

*Claims Experience Fluctuation*

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

A. Underwriting risk revenue times the underwriting risk claims ratio times a set of factors.

or

B. An alternate risk charge that addresses the risk of catastrophic claims on any single individual. The alternate risk charge is calculated for each type of health coverage, but only the largest value is compared to the value from A. above for that type. The alternate risk charge is equal to a multiple of the maximum retained risk on any single individual in a claims year. The maximum retained risk (level of potential claim exposure) is capped at two times the maximum or \$1,500,000 for Comprehensive Medical; two times the maximum or \$50,000 for each Medicare Supplement business and dental coverage and six times the maximum or \$1,500,000 for **Stand-Alone Medicare Part D** coverage.

Line (1) through Line (18)

There are four lines of business used in the property/casualty RBC formula for calculating the RBC requirement in this worksheet. Other health coverages will continue to use the factors on PR018 Health Premiums. The four lines of business are Column (1) Comprehensive Medical and Hospital; Column (2) Medicare Supplement Column (3) Dental & Vision and Column (4) **Stand-Alone Medicare Part D** coverage. Each of the four lines of business has its own column in the Underwriting Risk – Premium Risk table. The categories listed in the columns of this worksheet include premiums plus all risk revenue that is received from another health entity in exchange for medical services provided to such Health entity's members. The descriptions of the items are described as follows:



Comprehensive Medical & Hospital

Includes policies providing for medical coverages including hospital, surgical, major medical, Medicare risk coverage (but NOT Medicare Supplement), and Medicaid risk coverage. This includes Medicare Advantage, with or without prescription drug benefits. This category DOES NOT include administrative services contracts (ASC) or administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in PR020 Underwriting Risk – Other, Business Risk section of the formula. Neither does it include Federal Employees Health Benefit Program (FEHBP) business, which is reported on Line (3) of PR020 Underwriting Risk – Other. The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed \$1,500,000.

Medical Only (non-hospital professional services)

Include in Comprehensive Medical.

Medicare Supplement

This business is reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement. Medicare risk business is reported under comprehensive medical and hospital.

Dental & Vision

These are premiums for policies providing for dental or vision only coverage issued as stand-alone dental or vision or as a rider to a medical policy that is not related to the medical policy through deductibles or out-of-pocket limits.

Stand-Alone Medicare Part D Coverage

Includes policies and contracts providing the standard coverage for individuals enrolled in **Stand-Alone Medicare Part D** and the insurance is a federally approved PDP with risk corridor protection. It does not include risk revenue for Supplemental benefits within **Stand-Alone Medicare Part D** coverage that is a portion of the PDP's approved package. It does not include employer coverage unless the coverage meets the above criteria. Where there is a federal subsidy to the employer in lieu of risk corridor protection, the premiums are to be reported as "Other Health."

Other Health Coverages

Include in the appropriate line on PR017 Health Premiums.

The following paragraphs explain the meaning of each line of the worksheet table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium

This is the amount of money charged by the insurer for the specified benefit plan. It is the earned premium, net of reinsurance. It does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-risk business; or premium for the Federal Employees Health Benefit Programs (FEHBP), which has a risk factor relating to incurred claims reported separately under PR021 Underwriting Risk – Other, Line (3).

NOTE: Where premiums are paid on a monthly basis they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

For **Stand-Alone Medicare Part D** Coverage, this will include only certain amounts paid by the individual, an employer or CMS. See Appendix 2 for details of what is and is not premium income.

Line (2) Title XVIII Medicare

This is the earned amount of money charged by the insurer (net of reinsurance) for Medicare risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans.

Line (3) Title XIX Medicaid

This is the earned amount of money charged by the insurer for Medicaid risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicaid subscribers. Revenue from **Stand-Alone Medicare Part D** coverage under the low-income subsidy (cost sharing portion) and low-income subsidy (premium portion) are not included in this line.

Line (4) Other Health Risk Revenue

Earned amounts charged by the reporting company as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders or members of another insurer or health insurance company (Health). Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health insurance company to the company in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the company from an health entity. This revenue is reported in the business risk section of the formula as health ASO/ASC and limited risk revenue.

Line (5) Underwriting Risk Revenue

The sum of Lines (1.3) through (4).

Line (6) Net Incurred Claims

Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the insurer. Paid claims includes capitation and all other payments to providers for services to covered lives, as well as reimbursement directly to insureds (or their providers) for covered services. Paid claims also includes salaries paid to company employees that provide medical services to covered lives and related expenses. This line does not include ASC payments or Federal Employees Health Benefit Program (FEHBP) claims.

Column (1) claims come from Part 5 Column 1 Line D13 less the amounts reported as incurred claims for Administrative Services Contracts (ASC) in Line (8) of PR012 and Federal Employee Health Benefit Plan (FEHBP) in Line (3) of PR021. (Note that Medicare supplement claims could be double-counted if included in Column 1 of Schedule H, Part 5 rather than Column (3). Column (2) claims come from General Interrogatories Part 2, Line 1.5. Column (3) dental claims come from Schedule H, Part 5, Column 2, Line D13.)

For **Stand-Alone Medicare Part D** Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in Appendix 2). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claim liabilities should reflect expected recoveries from the reinsurance coverage – for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS.

Line (7) Fee-for-Service Offset

Report fee-for-service revenue that is directly related to medical expense payments. The fee-for-service line does not include revenue where there is no associated claim payment (e.g., fees or charges to non member/insured of the company where the provider of the service receives no additional compensation from the company) and when such revenue was excluded from the pricing of medical benefits.

Line (8) Underwriting Risk Incurred Claims

Line (6) minus Line (7).

Line (9) Underwriting Risk Claims Ratio

Line (8) / Line (5). If either Line (5) or Line (8) is zero or negative, Line (9) is zero.

Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.150	0.150	0.090
Medicare Supplement	0.105	0.067	0.067
Dental & Vision	0.120	0.076	0.076
<b>Stand-Alone Medicare Part D Coverage</b>	<b>0.251</b>	<b>0.251</b>	<b>0.151</b>

Line (11) Base Underwriting Risk RBC

Line (5) x Line (9) x Line (10c).

Line (12) Managed Care Discount

For Comprehensive Medical & Hospital, Medicare Supplement (including Medicare Select) and Dental, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the uncertainty about future claims payments attributable to the managed care arrangements. The discount factor is from Column (3), Line (11) of PR020 Underwriting Risk - Managed Care Credit. An average factor based on the combined results of these three categories is used for all three.

For **Stand-Alone Medicare Part D** Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (10.2) of PR020 Underwriting Risk - Managed Care Credit.

Line (13) Base RBC After Managed Care Discount

Line (11) x Line (12).

Line (14) RBC Adjustment for Individual

The average Experience Fluctuation Risk charge is increased by 20 percent for the portion relating to Individual Medical Expense premiums in Column (1). Other types of health coverage do not differentiate Individual and Group. The additional time necessary to develop sufficient data to make a premium filing with states and then to implement the premium increase was modeled to calculate this factor.

Line (15) Maximum Per-Individual Risk After Reinsurance

This is the maximum loss after reinsurance for any single individual. Where specific stop-loss reinsurance protection is in place, the maximum per-individual risk after reinsurance is equal to the highest attachment point on such stop-loss reinsurance, subject to the following:

- Where coverage under non-proportional reinsurance or stop-loss protection with the highest attachment point is capped at less than \$750,000 per insured for Comprehensive Medical and \$25,000 for the other three lines, the maximum retained loss will be equal to such attachment point plus the difference between the coverage maximum per claim and \$750,000 or \$25,000, whichever is applicable.

- Where the non-proportional reinsurance or stop-loss protection is subject to participation by the company, the maximum retained risk as calculated above will be increased by the company's participation in claims in excess of the attachment point, but not to exceed \$750,000 for Comprehensive Medical and \$25,000 for the other three coverages.

If there is no specific stop-loss or reinsurance in place, enter the largest amount payable (within a calendar year) or \$9,999,999 if there is no limit.

Examples of the calculation are presented below:

EXAMPLE 1 (Insurer provides Comprehensive Care):

Highest Attachment Point (Retention)	\$100,000
Reinsurance Coverage	90% of \$500,000 in excess of \$100,000
Maximum Reinsured Coverage	\$600,000 (\$100,000 + \$500,000)
Maximum Retained Risk =	\$100,000 deductible +\$150,000 (\$750,000 - \$600,000) <u>+\$50,000</u> (10% of \$500,000 coverage layer) =\$300,000

EXAMPLE 2 (Insurer provides Comprehensive Care):

Highest Attachment Point (Retention)	\$75,000
Reinsurance Coverage	90% of \$1,000,000 in excess of \$75,000
Maximum Reinsured Coverage	\$1,075,000 (\$75,000 + \$1,000,000)
Maximum Retained Risk =	\$75,000 deductible +\$0 (\$750,000 - \$1,075,000) <u>+\$67,500</u> (10% of \$675,000 coverage layer) =\$142,500

Line (16) Alternate Risk Charge

Twice the amount in Line (15), subject to a maximum of \$1,500,000 for comprehensive medical and \$50,000 for Medicare Supplement and Dental. Six times the amount in Line (15), subject to maximum of \$150,000 for **Stand-Alone Medicare Part D** Coverage.

Line (17) Net Alternate Risk Charge

The largest value from Line (16) is retained for that column in line (17) and all others are ignored.

Line (18) Net Underwriting Risk RBC

The maximum of Line (14) and Line (17).

## PR020 - Underwriting Risk – Managed Care Credit

This worksheet PR020 Underwriting Risk – Managed Care Credit is optional. It may be completed for only part of the Comprehensive Medical, **Stand-Alone Medicare Part D** Coverage, Dental business or all of them. Line (1) will be filled in as the balancing item if any of Lines (2) through (8) are entered (and then Line (9) will be required).

The effect of managed care arrangements on the variability of underwriting results is the fundamental difference between coverages subject to the managed care credit and pure indemnity insurance. The managed care credit is used to reduce the RBC requirement for experience fluctuations. It is important to understand that the managed care credit is based on the reduction in uncertainty about future claims payments, not on any reduction in the actual level of cost. Those managed care arrangements that have the greatest reduction in the uncertainty of claims payments receive the greatest credit, while those that have less effect on the predictability of claims payments engender less of a discount.

There are currently five levels of managed care that are used in the RBC formulas other than for **Stand-Alone Medicare Part D** Coverage, although in the future as new managed care arrangements evolve, the number of categories may increase or new arrangements may be added to the existing categories. The managed care categories are:

- Category 0 - Arrangements not Included in Other Categories
- Category 1 - Contractual Fee Payments
- Category 2 - Bonus / Withhold Arrangements
- Category 3 - Capitation
- Category 4 - Non-contingent Expenses and Aggregate Cost Arrangements and Certain PSO Capitated Arrangements

For **Stand-Alone Medicare Part D** Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, new Lines (10.1) through (10.4) will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

The managed care credit is based on the percentage of paid claims that fall into each of these categories. Total claims payments are allocated among these managed care “buckets” to determine the weighted average discount, which is then used to reduce the Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental RBC. Paid claims are used instead of incurred claims due to the variability of reserves (unpaid claims) in incurred claim amounts and the difficulty in allocating reserves (unpaid claims) by managed care category.

In some instances, claims payments may fit into more than one category. If that occurs, enter the claims payments into the highest applicable category. **CLAIMS PAYMENTS CAN ONLY BE ENTERED INTO ONE OF THESE CATEGORIES!** The total of the claims payments reported in the managed care worksheet should equal the total year’s paid claims. Category 2a, Category 2b and Category 3c are not allowed to include non-regulated intermediaries who are affiliated with the reporting company in order to ensure that true risk transfer is accomplished.

### Line (1)

Category 0 - Arrangements not Included in Other Categories. There is a zero managed care credit for claim payments in this category, which includes:

- Fee for service (charges).
- Discounted fee for service (based upon charges).
- Usual customary and reasonable (UCR) schedules.
- Relative value scale (RVS) where neither payment base nor RV factor is fixed by contract or where they are fixed by contract for one year or less.

- Retroactive payments to capitated providers or intermediaries whether by capitation or other payment method (excluding retroactive withholds later released to the provider and retroactive payments made solely because of a correction to the number of members within the capitated agreement).
- Capitation paid to providers or intermediaries that have received retroactive payments for previous years (including bonus arrangements on capitation programs).
- Claim payments not included in other categories.

Line (2)

Category 1 - Payments Made According to Contractual Arrangements. There is a 15 percent managed care credit for payments included in this category:

- Hospital per diems, diagnostic related groups (DRGs) or other hospital case rates.
- Non-adjustable professional case and global rates.
- Provider fee schedules.
- Relative value scale (RVS) where the payment base and RV factor are fixed by contract for more than one year.

Line (3)

Category 2a - Payments Made Subject to Withholds or Bonuses With No Other Managed Care Arrangements. This category may include business that would have otherwise fit into Category 0. That is, there may be a bonus/withhold arrangement with a provider who is reimbursed based on a UCR schedule (Category 0).

The maximum Category 2a managed care credit is 25 percent. The credit is based upon a calculation that determines the ratio of withholds returned and bonuses paid to providers during the prior year to total withholds and bonuses available to the providers during that year. That ratio is then multiplied by the average provider withhold ratio for the prior year to determine the current year's Category 2a managed care credit factor. Bonus payments that are not related to financial results are not included (e.g., patient satisfaction). Therefore, the credit factor is equal to the result of the following calculation:

EXAMPLE - 1998 Reporting Year

1997 withhold / bonus payments	\$750,000
1997 withholds / bonuses available	\$1,000,000
A. MCC Factor Multiplier	75% - Eligible for credit
1997 withholds / bonuses available	\$1,000,000
1997 claims subject to withhold -gross†	\$5,000,000
B. Average Withhold Rate	20%
Category 2 Managed Care Credit Factor (A x B)	15%

The resulting factor is multiplied by claims payments subject to withhold - net‡ in the current year.

† These are amounts due before deducting withhold or paying bonuses.  
‡ These are actual payments made after deducting withhold or paying bonuses.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses, but otherwise had no managed care arrangements.

Line (4)

Category 2b - Payments Made Subject to Withholds or Bonuses That Are Otherwise Managed Care Category 1. Category 2b may include business that would have otherwise fit into Category 1. That is, there may be a bonus/withhold arrangement with a provider who is reimbursed based on a provider fee schedule (Category 1). The Category 2 discount for claims payments that would otherwise qualify for Category 1 is the greater of the Category 1 factor or the calculated Category 2 factor.

The maximum Category 2b managed care credit is 25 percent. The minimum Category 2b managed care credit is 15 percent (Category 1 credit factor). The credit calculation is the same as found in the previous example for Category 2a.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses AND where the payments were made according to one of the contractual arrangements listed for Category 1.

Line (5)

Category 3a - Capitated Payments Directly to Providers. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitation or percent of premium payments made directly to licensed providers.

Enter the amount of claims payments paid DIRECTLY to licensed providers on a capitated basis.

Line (6)

Category 3b - Capitated Payments to Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitation or percent of premium payments to regulated intermediaries that in turn pay licensed providers.

Enter the amount of medical expense capitations paid to regulated intermediaries (see Appendix 1 for definition). In those cases where the capitated regulated intermediary employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

Line (7)

Category 3c - Capitated Payments to Non-Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitated or percent of premium payments to non-affiliated intermediaries that in turn pay licensed providers. (Subject to a 5 percent limitation on payments to providers or other corporations that have no contractual relationship with such intermediary. Amounts greater than the 5 percent limitation should be reported in Category 0).

Enter the amount of medical expense capitations paid to non-regulated intermediaries not affiliated with the reporting company. Do not include the amount of medical expense capitations paid to non-regulated intermediaries that are affiliated with the reporting company. These amounts should be reported in Category 0. Non-regulated intermediaries are those organizations which meet the definition of Intermediary but not regulated intermediary in the Appendix 1. In cases where the capitated non-regulated intermediary (even if affiliated) employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

IN ORDER TO QUALIFY FOR ANY OF THE CAPITATION CATEGORIES, SUCH CAPITATION MUST BE FIXED (AS A PERCENTAGE OF PREMIUM OR FIXED DOLLAR AMOUNT PER MEMBER) FOR A PERIOD OF AT LEAST 12 MONTHS. Where an arrangement contains a provision for prospective revision within a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 1 for a provider, and for an intermediary at the greater of Category 1 or a credit calculated using the underlying payment method(s) to the providers of care. Where an arrangement contains a provision for retroactive revisions either within or beyond a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 0 for providers and intermediaries.

Line (8)

Category 4 - Medical & Hospital Expense Paid as Salary to Providers. There is a managed care credit of 75 percent for claims payments in this category. Once claims payments under this managed care category are totaled, any fee for service revenue from uninsured plans (i.e., ASO or ASC) that was included on Line (7) in the underwriting risk section should be deducted before applying the managed care credit factor.

- Non-contingent salaries to persons directly providing care.
- The portion of payments to affiliated entities which is passed on as non-contingent salaries to persons directly providing care where the entity has a contract only with the company.
- All facilities related medical expenses and other non-provider medical costs generated within health facility that is owned and operated by the insurer.
- Aggregate cost payments.

Salaries paid to doctors and nurses whose sole corporate purpose is utilization review are also included in this category if such payments are classified as “medical expense” payments (paid claims) rather than administrative expenses. The Aggregate Cost method of reimbursement means where a health plan has a reimbursement plan with a corporate entity that directly provides care, where (1) the health plan is contractually required to pay the total operating costs of the corporate entity, less any income to the entity from other users of services; and (2) there are mutual unlimited guarantees of solvency between the entity and the health plan, that put their respective capital and surplus at risk in guaranteeing each other.

Line (10.1)

Category 0 for **Stand-Alone Medicare Part D** Coverage would be all claims during a period where neither the reinsurance coverage or risk corridor protection is provided.

Line (10.2)

Category 1 for **Stand-Alone Medicare Part D** Coverage would be for all claims during a period when only the reinsurance coverage is provided. This is designed for some future time period and is not to be interpreted as including employer-based Part D coverage that is not subject to risk corridor protection.

Line (10.3)

Category 2a for **Stand-Alone Medicare Part D** Coverage would be for all claims during a period when only the risk corridor protection is provided.

Line (10.4)

Category 3a for **Stand-Alone Medicare Part D** Coverage would be for all claims during a period when both reinsurance coverage and risk corridor protection are provided.

Line (10.6)

Total Paid Claims – The total of Column (1) paid claims should equal the total claims paid for the year as reported in Schedule H, Part 5, Columns 1 and 2, Line D16 of the annual statement.

Line (11)

Weighted Average Managed Care Discount – This amount is calculated by dividing the total weighted claims (Line (9) Column (2)) by the total claim payments (Line (9) Column (1)).

Line (12)

Weighted Average Managed Care Risk Adjustment Factor - This is the credit factor that is carried back to the underwriting risk calculation. They are one minus the Weighted Average Managed Care Discount (Line (11)).



Lines (13) through (19)

Lines (13) through (19) are the calculation of the weighted average factor for the Category 2 claims payments subject to withholds and bonuses. This table requires data from the PRIOR YEAR to compute the current year's discount factor.

Line (13)

Enter the prior year's actual withhold and bonus payments.

Line (14)

Enter the prior year's withholds and bonuses that were available for payment in the prior year.

Line (15)

Divides Line (13) by Line (14) to determine the portion of withholds and bonuses that were actually returned in the prior year.

Line (16)

Equal to Line (14) and is automatically pulled forward.

Line (17)

Claims payments that were subject to withholds and bonuses in the prior year. Equal to Line (3) + Line (4) of Underwriting Risk-Managed Care Credit FOR THE PRIOR YEAR.

Line (18)

Divides Line (16) by Line (17) to determine the average withhold rate for the prior year.

Line (19)

Multiplies Line (15) by Line (18) to determine the discount factor for Category 2 claims payments in the current year, based on the performance of the insurer's withhold/bonus program in the prior year.

PR021 - Underwriting Risk – Other and Total Net Health Premium RBC

*Administrative Expenses for Certain A&H Coverages and for Health ASO/ASC*

To maintain general consistency with the life RBC formula, an amount is determined as risk related to the potential that actual expenses of administering certain types of health insurance will exceed the portion of the premium allocated to cover these expenses. Not all administrative expenses are included (commissions, premium taxes and other expenses defined and paid as a percentage of premium are not included and the expenses for administrative services contracts (ASC) and administrative service only (ASO) business have separate lower factors) and the factor is graded based on a two-tier formula related to health insurance premium to which this risk is applied.

*Specific Instructions for Application of the Formula*

Lines (1) and (2)

In addition to the general risk of fluctuations in the claims experience, there is an additional risk generated when insurers guarantee rates for extended periods beyond one year. If rate guarantees are extended between 15 and 36 months from policy inception, a factor of 0.024 is applied against the direct premiums earned for those guaranteed policies. Where a rate guaranty extends beyond 36 months, the factor is increased to 0.064. This calculation only applies to those lines of accident and health business that include a medical trend risk; i.e.

Comprehensive Medical, Medicare Supplement, Dental, **Stand-Alone Medicare Part D** Coverage, Stop-Loss and Minimum Premium and Other Limited Benefits Anticipating Rate Increases. Premiums entered should be the earned premium for the current calendar year period and not for the entire period of the rate guarantees. Premium amounts should be shown net of reinsurance only when the reinsurance ceded premium is also subject to the same rate guarantee.

Line (3)

A separate risk factor has been established to recognize the reduced risk associated with safeguards built into the Federal Employees Health Benefit Program (FEHBP) created under Section 8909(f)(1) of Title 5 of the United States Code. Claims incurred are multiplied by 2 percent to determine total underwriting RBC on this business.

Line (8)

Enter the total amount of administrative expenses for health insurance in Column (1) – this amount will come from company records. Lines (9) and (10) are used to back out any amounts related to Administrative Services Contracts (ASC) and Administrative Services Only (ASO) contracts, respectively – these are brought back into the formula in Lines (15) and (16). Line (11) backs out administrative expenses for commissions and premium taxes.

Line (15)

Include the amount reported in Line (9) plus any other administrative expenses for ASC business. Line (15) should be greater than or equal to Line (9).

Line (16)

Include the amount reported in Line (10) plus any other administrative expenses for ASO business. Line (16) should be greater than or equal to Line (10).

PR022 - Long-Term Care

The long-term care morbidity risk is calculated in part based on the current year's earned premium. The premium is separated into the total not to exceed \$50,000,000 to which a larger factor is applied and amounts in excess of \$50,000,000 to which a lower factor is applied. This is done in Lines (1) to (3) of PR022 Long-Term Care.

Another portion of the morbidity risk is applied to incurred claims. This is done in Lines (4.1) through (6). To reduce the volatility of claims, the current and prior year's results are averaged using loss ratios. This is done in lines (4.1) to (4.3). The average loss ratio is applied to current year's earned premium to get Adjusted LTC Claims for RBC in Line (5). To allow for those situations where either there is no positive earned premium or one of the loss ratios is negative, the RBC formula uses the actual incurred claims for the current year. The claim s-based RBC is separated into amounts up to \$35,000,000 to which a higher factor is applied in Line (5.1) and amounts in excess of \$35,000,000 in Line (5.2). In addition, if Line (1), Column (1) is not positive, a larger factor is applied to actual incurred claims (if positive) to reflect the fact that there is no premium-based RBC.

PR023 - Health Claim Reserves

Additional risk-based capital of 5 percent of claim reserves for individual and group and credit is required to recognize the risk of the level of recoveries and other claim terminations falling below that assumed in the claim reserves.

## PR024 - Premium Stabilization Reserves

### *Basis of Factors*

Premium stabilization reserves are funds held by the company in order to stabilize the premium a group policyholder must pay from year to year. Usually experience rating refunds are accumulated in such a reserve so that they can be drawn upon in the event of poor future experience. This reduces the insurer's risk.

For group health insurance, 50 percent of premium stabilization reserves held in the Annual Statement as a liability (not as appropriated surplus) are permitted as an offset up to the amount of risk-based capital. The 50 percent factor was chosen to approximate the portion of premium stabilization reserves that would be an appropriate offset if the formula were applied on a contract-by-contract basis, and the reserve offset was limited to the amount of risk-based capital required for each contract.

### *Specific Instructions for Application of the Formula*

There is some variance for reporting liabilities that are appropriately considered premium stabilization reserves. The data source should come from company records.

The sum of these various types of premium stabilization reserves equals the preliminary premium stabilization reserve credit. The final premium stabilization reserve credit is limited to the risk-based capital previously calculated.

## TOTAL ADJUSTED CAPITAL AND COMPARISON TO RISK-BASED CAPITAL PR025 – PR031

### PR025 - Capital Notes Before Limitation

The laws of certain states allow insurers to issue a form of capital instrument called a “capital note.” A credit is allowed to Total Adjusted Capital for a capital note that satisfies all of the following conditions:

1. In a liquidation, the capital note ranks with surplus notes and is subordinate to the claims of policyholders, claimants and general creditors.
2. The form and content of the capital note was approved by the commissioner of the insurer’s state of domicile.
3. At the time of issuance of the capital note, the aggregate principal amount did not exceed 25 percent of the Total Adjusted Capital (including the aggregate principal amount of outstanding capital and surplus notes) as of the end of the immediately preceding calendar year less the aggregate principal amount of outstanding capital and surplus notes.
4. The term of the capital note is not less than five years.
5. At the time of issuance of the capital note:
  - a) The total principal amount of capital notes maturing in any one year did not exceed 5 percent of Total Adjusted Capital (measured at the time of issuance); and
  - b) The total principal amount of capital notes maturing in any three-year period did not exceed 12 percent of Total Adjusted Capital (measured at the time of issuance).
6. Payment of interest, dividend or principal of the capital note is deferred if it would have caused the insurer’s Total Adjusted Capital to drop below its Company Action Level Risk-Based Capital. However, upon request by the insurer, the commissioner of the insurer’s state of domicile may approve such payment if in the commissioner’s judgment the financial condition of the insurer warrants it.
7. The commissioner of the insurer’s state of domicile may halt all payments on the capital note if the insurer’s Total Adjusted Capital drops below three times the principal amount of the capital and surplus notes that the insurer has outstanding.
8. The capital note is treated as a liability and consequently does not increase statutory surplus.
9. The insurer issuing the capital note is obligated to supply to the commissioner of the insurer’s state of domicile an informational filing in a manner approved by the Commissioner at the same time the insurer files its Annual Statement, and at such other times as the commissioner determines necessary. The filing shall include and be based on the following guidelines:
  - a) The filing shall display the financial results of the criteria used to determine whether payments on the insurer’s capital notes need to be approved by the commissioner or may be halted by the commissioner. Further, it shall specifically identify those results that either necessitate commissioner approval of the payment or give the commissioner the option to halt payment.
  - b) The insurer shall notify the commissioner for informational purposes of each forthcoming payment under a capital note not less than 10 business days prior to the date of payment, nor more than 30 business days prior to the date of payment.
  - c) Whenever an insurer declares its intention to exercise the option to call or redeem a capital note prior to the scheduled maturity, the Commissioner shall be notified within five business days following the declaration, and not less than 10 business days prior to the declared redemption date. The 10 day period should be measured from the date of the commissioner’s receipt of the notice.

The credit for a capital note is reduced as the note approaches maturity (as calculated on PR025 Capital Notes Before Limitation). The aggregate credit for capital notes is limited so that the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-third of Total Adjusted Capital.

## PR026 - Calculation of Total Adjusted Capital

This is computed by subtracting the full value of the non-tabular discount found in Schedule P, Part 1 – Summary, L12 C32 and C33 plus any discount on medical reserves included in C24 for the company and its affiliates from its capital and surplus from P3 C1 L35, and then adding back the AVR and half of any dividend liability of any of the company’s life insurance affiliates. All the affiliate amounts should be adjusted by percentage of ownership before entering. All U.S. life, property & casualty and investment affiliates should be included. If a company has no affiliates, then Total Adjusted Capital is equal to its capital and surplus adjusted for non-tabular discounts.

### Lines (13.1) through (13.4)

These lines calculate the credit to Total Adjusted Capital for the insurer’s qualifying capital notes. The calculation on Line (13.2) limits the credit for capital notes so the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-half of Total Adjusted Capital from other sources. This is equivalent to a limit of one-third of Total Adjusted Capital from all sources including the capital and surplus notes themselves.

The TAC is reported in the annual statement’s Five-Year Historical Exhibit on Line 27, *Total Adjusted Capital*.

The Sensitivity test provides a “what if” scenario eliminating deferred tax assets and deferred tax liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

Include only the admitted portion of the deferred tax asset for Line (15). Line (16) should include only the admitted portion of insurance subsidiaries’ deferred tax assets.

## PR027-29 - Computation of Total Risk-Based Capital After Covariance

The components of R0, R1, R2, R3, R4 and R5 are shown on the following pages of the booklet. The covariance adjustment is used to discount the Total RBC Before Covariance because the RBC amounts for the individual R components, when simply added together, overstate the true risk. It is assumed that not all of the events for which RBC is required would occur simultaneously.

The components of the Total RBC After Covariance formula are:

- R0 – Affiliated Insurance Company Assets RBC
- R1 – Fixed Income Assets RBC
- R2 – Equity Assets RBC
- R3 – Credit-Related Assets RBC
- R4 – Underwriting Risk – Reserves RBC
- R5 – Underwriting Risk – Net Written Premiums

If loss reserve RBC is greater than the sum of other credit RBC and one half of reinsurance recoverable RBC, then half of reinsurance recoverable is allocated to the R4 component and half is allocated to R3. If loss reserve RBC is less than or equal to the sum of other credit RBC plus one half of reinsurance recoverable RBC, then the entire amount of reinsurance RBC is allocated to the R3 component.

To compute the Total RBC After Covariance, the following formula is used:

$$R0 + \text{SQRT}(R1^2 + R2^2 + R3^2 + R4^2 + R5^2) = \text{Total RBC After Covariance}$$

The Authorized Control Level RBC, which is reported in the Five-Year Historical Exhibit on Line 28 along with Total Adjusted Capital, is one-half of the Total RBC After Covariance.

PR031 - Comparison of Total Adjusted Capital and Authorized Control Level Risk-Based Capital

This section of the risk-based capital report compares amounts previously developed and determines which level of regulatory attention, if any, is applicable to the company.

Lines (1) through (5) will be calculated automatically by the diskette. One of the following action levels will appear on L(6):

- Company Action Level
- Regulatory Action Level
- Authorized Control Level
- Mandatory Control Level
- None

Company Action Level requires the company to prepare and submit an RBC Plan to the commissioner of their state of domicile. The RBC Plan is to be submitted within 45 days. After review, the commissioner will notify the company if the plan is satisfactory.

Regulatory Action Level requires the insurer to submit an RBC Plan, or if applicable, a Revised RBC Plan within 45 days to the commissioner of their state of domicile. After examination or analysis, the commissioner will issue an order specifying corrective actions (Corrective Order) to be taken.

Authorized Control Level authorizes the commissioner to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the insurer, which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation).

Mandatory Control Level authorizes the commissioner to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

When "None" shows, the company's total adjusted capital exceeds the minimum RBC amount and the company is not subject to regulatory attention under the Risk Based Capital (RBC) for Insurers Model Act. NOTE: 98.5 percent of insurers usually fit into this category.

## APPENDIX 1 - COMMONLY USED HEALTH INSURANCE TERMS

The definitions in this section are frequently duplicates from the main body of the text. If there are any inconsistencies between the definitions in this section and the definitions in the main body of the instructions, the main body definition should be used.

Administrative Expenses - Costs associated with the overall management and operations of the insurer that are not directly related to, or in direct support of providing medical services. Expenses to administer ASC, ASO business and related revenue must be identified separately from underwritten business. Commission payments and premium taxes are excluded for RBC calculation purposes.

Administrative Services Contract (ASC) - A contract where the insurer agrees to provide administrative services, such as claims processing, for a third party that is at risk, and accordingly, the administrator has not issued an insurance policy, regardless of whether an identification card is issued. The administrator may arrange for provision of medical services through a contracted or employed provider network. The plan (whether insured by another reporting entity or self insured) bears all of the insurance risk, and there is not possibility of loss or liability to the administrator caused by claims incurred related to the plan. Claims are paid from the reporting entity's own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor.

ASC Reimbursements - Funds received by the company under an ASC contract as reimbursement for claims payments and for expenses associated with administering the contract.

Administrative Services Only (ASO) - A contract where the insurer agrees to provide administrative services, such as claims processing, for a third party that is at risk, and accordingly, the administrator has not issued an insurance policy, regardless of whether an identification card is issued. The administrator may arrange for provision of medical services through a contracted or employed provider network. The plan (whether insured by another reporting entity or self insured) bears all of the insurance risk, and there is not possibility of loss or liability to the administrator caused by claims incurred related to the plan. Claims are paid from a bank account owned and funded directly by the uninsured plan sponsor; or, claims are paid from a bank account owned by the reporting entity, but only after the reporting entity has received funds from the uninsured plan sponsor that are adequate to fully cover the claim payments.

ASO Reimbursements - Funds received by the company under an ASO contract as a fee for expenses associated with administering the contract.

Aggregate Cost Payments - The aggregate cost method of reimbursement means where a health plan has a reimbursement plan with a corporate entity that directly provides care, where (1) the health plan is contractually required to pay the total operating costs of the corporate entity, less any income to the entity from other users of services; and (2) there are mutual unlimited guarantees of solvency between the entity and the health plan, that put their respective capital and surplus at risk in guaranteeing each other.

Intermediary - An intermediary is a person, corporation or other business entity (not licensed as a medical provider) that arranges, by contracts with physicians and other licensed medical providers, to deliver health services for an insurer and its enrollees via a separate contract between the intermediary and the insurer.

Health Insurance Company (Health) - Any person, corporation or other entity (other than an insurer) that enters into arrangements or agreements with licensed medical providers or intermediaries for the purpose of providing or offering to provide a plan of health benefits directly to individuals or employer groups in consideration for an advance periodic charge (premium) per member covered.

Maximum Retained Risk - The maximum level of potential claim exposure (capped at \$750,000 for medical coverage and \$25,000 for all other coverage) resulting from coverage on a single member of an insurer. Maximum retained risk for companies providing “professional component” (non-hospital) coverage will be capped at \$375,000. Where specific stop-loss reinsurance protection is in place, this is equal to the highest attachment point on such stop-loss reinsurance, subject to the following:

Where coverage under the stop-loss protection (plus retention) with the highest attachment point is capped at less than \$750,000 per member (\$375,000 for companies providing “professional component” coverage only), the maximum retained loss will be equal to such attachment point plus the difference between the coverage (plus retention) and \$750,000.

Where the stop-loss layer is subject to participation by the insurer, the maximum retained risk as calculated above will be increased by the insurer’s participation in the stop-loss layer (up to \$750,000 less retention).

Professional Services - Health care services provided by a physician or other health care practitioner licensed, accredited or certified to perform specified health services consistent with state law.

Provider Stop-loss - Coverage afforded to a provider via the risk-sharing mechanisms within the contract with such provider in exchange for a reduced payment to the provider. Also includes insurance (not reinsurance) purchased by the provider (or an intermediary) directly from a licensed insurer.

Regulated Intermediary - An intermediary (affiliated or not) subject to state regulation and required to file the health insurance RBC formula with the state. (See also Intermediary)

Risk Revenue - Amounts charged by the reporting insurer as a provider or intermediary for specified medical services provided to the policyholders or members of another insurer or health insurance company. Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health insurance company to the reporting company in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation at the same factor as premiums and are subject to the same managed care credit categories. *NOTE: RISK REVENUE IS VERY SIMILAR TO REINSURANCE ASSUMED.*

Specified Disease Coverage - Coverage that provides primarily pre-determined benefits for expenses in the care of cancer and/or other specified diseases.

Stop-Loss Coverage - Coverage for a self-insured group plan, a provider/provider group or non-proportional reinsurance of a medical insurance product. Coverage may apply on a specific basis, an aggregate basis or both. Specific coverage means that the stop loss carriers risk begins after a minimum of at least \$5,000 of claims for any one covered life has been covered by the group plan, provider/provider group or direct writer. Aggregate coverage means that the stop loss carriers risk begins after the group plan, provider/provider group or direct writer has retained at least 90 percent of expected claims or the economic equivalent.



## APPENDIX 2 – COMMONLY USED TERMS FOR MEDICARE PART D COVERAGE

The federal Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including both coverage provided through a stand-alone Prescription Drug Plan (PDP) and coverage provided as part of a Medicare Advantage plan. CMS ascribes a specific meaning to most of the following terms, and the RBC formulas have adopted that terminology to reduce the potential for misinterpretation. Other terms have been defined below in order to facilitate the appropriate application of the RBC formula.

**Beneficiary Premium (Standard Coverage Portion)** – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for the Standard Coverage. This includes any late enrollment penalties that the PDP Sponsor receives for an enrollee. The Beneficiary Premium is accounted for as health premium.

**Beneficiary Premium (Supplemental Benefit Portion)** – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for Supplemental Benefits. The Beneficiary Premium is accounted for as health premium.

**Coverage Year Reconciliation** – A reconciliation made after the close of each calendar year, to determine the amounts that a PDP Sponsor is entitled to for the Low-Income Subsidy (Cost-Sharing Portion), the Reinsurance Payment, and the Risk Corridor Payment Adjustment. To the extent that interim payments (if any) from CMS exceeded the amounts determined by the reconciliation, the PDP Sponsor must return the excess to the government; to the extent that interim payments (if any) from CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP Sponsor. The Coverage Year Reconciliation results in the Low-Income Subsidy (Cost-Sharing Portion) and the Reinsurance Payment being essentially a self-insured (by the government) component of the Part D coverage, subject to SSAP No. 47. The Coverage Year Reconciliation also results in the treatment of the Risk Corridor Payment Adjustment as a retrospective premium adjustment, subject to SSAP No. 66.

**Direct Subsidy** – The amount the government pays to the PDP Sponsor for the Standard Coverage. These payments are accounted for as health premium.

**Low-Income Subsidy (Cost-Sharing Portion)** – The amount the government pays to the PDP Sponsor for additional benefits provided to low-income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the copayment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.

**Low-Income Subsidy (Premium Portion)** – The amount the government pays to the PDP Sponsor for low-income enrollees in lieu of part or all of the Beneficiary Premium (Standard Coverage Portion). These payments are accounted for as health premium.

**Part D Payment Demonstration** – A payment from the government to a PDP Sponsor participating in CMS's Part D Payment Demonstration. The Payment Demonstration is a special arrangement in which the PDP sponsor receives a predetermined per-enrollee capitation payment and the government no longer provides reinsurance for the 80 percent of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for this 80 percent of costs, in addition to its normal 15 percent share of costs in excess of this threshold. However, risk corridor protection does still apply to this 80 percent share of costs. These payments are accounted for as health premium.

**PDP Sponsor** – The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).

**Reinsurance Coverage** – The Medicare Part D provision under which the PDP sponsor may receive a Reinsurance Payment. This does not include payments under the Part D Payment Demonstration.

Reinsurance Payment – An amount paid by the government for benefit costs above the out-of-pocket threshold (see “Standard Coverage”). Generally, when costs exceed the out-of-pocket threshold, the government pays 80 percent of the costs, the enrollee pays 5 percent (or specified copayments, if greater), and the PDP Sponsor pays the remainder (typically, 15 percent of the costs). The amount paid by the government is treated as a claim payment made by a self-insured benefit plan rather than as revenue to the PDP Sponsor, and the claims do not flow through the PDP sponsor’s income statement. In cases where the government prepays the Reinsurance Payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP Sponsor’s income statement.

Risk Corridor Payment Adjustment – An amount by which the government adjusts its payments to the PDP Sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP Sponsor’s bid for the Part D contract (the “target amount” of costs). The government establishes thresholds for symmetric risk corridors around the target amount, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. If actual costs exceed the first threshold upper limit, the government will make an additional payment equal to 50 percent (75 percent in **2006** and **2007**, or 90 percent under some circumstances) of the excess that falls between the first and second thresholds are 2.5 percent and 5 percent, respectively; for **2008-2011**, they are 5 percent and 10 percent; and for 2012 and later, the thresholds have not yet been established, but will be no less than the **2008-2011** values. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.

Risk Corridor Protection – The **Medicare Part D** provision under which the PDP sponsor may receive or pay a Risk Corridor Payment Adjustment. Most employer plans providing **Medicare Part D** are not subject to Risk Corridor Payment Adjustments.

Standard Coverage – The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (25 percent of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit, in which the insured pays all of the prescription drug costs – i.e., no coverage by the PDP; and an annual out-of-pocket threshold, above which the insured pays the greater of a specified copayment or 5 percent of the drug cost. The various limits and thresholds are set at specified dollar amounts for 2006, which will be increased in later years based on the growth in drug expenditures. Wherever the term “Standard Coverage” is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out-of-pocket threshold, see the definitions of “Reinsurance Payment” and “Part D Payment Demonstration.”

Supplemental Benefits – Benefits in excess of the Standard Coverage. These benefits typically will cover some portion of the deductible, the copayments, or the “coverage gap” between the initial coverage limit and the out-of-pocket threshold. Supplemental Benefits are part of an enrollee’s Part D coverage, so they are not placed in the “Other” category in the RBC formula. However, they are not subject to either the Reinsurance Payment or the Risk Corridor Payment Adjustment, so they receive less favorable RBC treatment than the Standard Coverage.

**COMPANY INFORMATION PAGE (JURAT)**  
**Property Risk-Based Capital**  
**For the Year Ending December 31, 2009**

**Affix Bar Code**

(A)	Company Name	<u>Company Name</u>						
(B)	NAIC Group Code	<u>0000</u>	(C)	NAIC Company Code	<u>00000</u>	(D)	Employer's ID Number	<u>00-0000000</u>
(E)	Organized under the Laws of the State of	<u></u>						
	Contact Person for Life Risk-Based Capital:							
(F)	First Name	<u></u>	(G)	Middle	<u></u>	(H)	Last Name	<u></u>
(I)	Mail Address of Contact Person	<u></u>						
		(Street and Number of P.O. Box)						
(J)	City	<u></u>	(K)	State	<u></u>	(L)	Zip	<u></u>
(M)	Phone Number of RBC Contact Person	<u></u>		Extension	<u></u>		Email	<u></u>
(N)	Date Prepared	<u>October 28, 2009</u>						
(O)	Preparer (if different than Contact)	<u></u>		<u></u>			<u></u>	
		First Name		Middle Name			Last Name	
(P)	Is this filing an Original, Amended or Refiling ? (O,A,R)	<u></u>						
(P1)	If Amended, Amended Number	<u></u>						
(Q)	Were any items that come directly from the annual statement entered manually to prepare this filing ? (Y/N)	<u></u>						
	Officer Name:	<u></u>		<u></u>			<u></u>	
	Officer Title:	<u></u>		<u></u>			<u></u>	

Each says that they are the above described officers of the said insurer, and that this risk-based capital is a true and fair representation of the company's affairs and has been completed in accordance with the NAIC instructions according to the best of their information, knowledge and belief, respectively.

Signature

Signature

Signature

Denotes items that must be manually entered on the filing software

DETAILS FOR AFFILIATED BONDS AND STOCKS PR002

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Name of Affiliate	Affil Type	NAIC Company Code or Alien ID Number	Affiliate's RBC After Covariance*	Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock**	Valuation Basis of Column (5) F - Fair Value A - All Other	Total Value of Affiliate's Outstanding Common Stock	Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	Percent Owned	Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock	Total Value of Affiliate's Outstanding Preferred Stock	Percent Owned	Book/Adjusted Carrying Value (statement value) of Affiliate's Bonds	Total Value of Affiliate's Outstanding Bonds	Percent Owned	RBC Required	Fair Value Excess Component Affiliate Common Stock RBC Required
0000001								0%			0%			0%	0	0
0000002								0%			0%			0%	0	0
0000003								0%			0%			0%	0	0
0000004								0%			0%			0%	0	0
0000005								0%			0%			0%	0	0
0000006								0%			0%			0%	0	0
0000007								0%			0%			0%	0	0
0000008								0%			0%			0%	0	0
0000009								0%			0%			0%	0	0
0000010								0%			0%			0%	0	0
0000011								0%			0%			0%	0	0
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0000046								0%			0%			0%	0	0
0000047								0%			0%			0%	0	0
0000048								0%			0%			0%	0	0
0000049								0%			0%			0%	0	0
0000050								0%			0%			0%	0	0
(9999999) Total	XXX	XXX	0	0XXX	XXX	XXX	XXX	XXX	0	XXX	XXX	0	XXX	XXX	0	0

\* Enter carrying value of underlying insurers for Holding Company (Affiliate Code 10) in Column (4).  
 \*\* Enter Book/Adjusted Carrying Value in excess of the carrying value for Holding Company (Affiliate Code 10 in Column (5)).  
 Denotes items that must be manually entered on the filing software.

**SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS PR003**

			(1)	(2)	(3)	(4)	(5)
			<u>Number of</u>	<u>RBC Required for</u>	<u>RBC Required for</u>	<u>RBC Required for</u>	<u>Total RBC Required</u>
			<u>Companies</u>	<u>Affiliated Com Stock</u>	<u>Affiliated Pref'd Stock</u>	<u>Affiliated Bonds</u>	
Affiliate Types	Affil Code	RBC Basis					
(1) Directly owned P&C Insurance Affiliates	1	Sub's RBC After Covariance	0	0	0	0	0
(2) Directly Owned Life Insurance Affiliates	2	Sub's RBC After Covariance	0	0	0	0	0
(3) Directly Owned Health Insurance Affiliates	3	Sub's RBC After Covariance	0	0	0	0	0
(4) Indirectly Owned P&C Insurance Affiliates	4	Sub's RBC After Covariance	0	0	0	0	0
(5) Indirectly Owned Life Insurance Affiliates	5	Sub's RBC After Covariance	0	0	0	0	0
(6) Indirectly Owned Health Insurance Affiliates	6	Sub's RBC After Covariance	0	0	0	0	0
(7) Investment Subsidiary	7	Sub's RBC After Covariance	0	0	0	0	0
(8) Directly Owned Alien Insurance Affiliates	8	0.5	0	0	0	0	0
(9) Indirectly Owned Alien Insurance Affiliates	9	0.5	0	0	0	0	0
(10) Holding Company in Excess of Indirect Subs	10	0.225	0	0	0	0	0
(11) Investment in Parent	11	0.225	0	0	0	0	0
(12) Other Affiliate - P&C Ins Not Subj to RBC	12	0.225	0	0	0	0	0
(13) Other Affiliate - Life Ins Not Subj to RBC	13	0.225	0	0	0	0	0
(14) Other Affiliate - Health Insurance Not Subj to RBC	14	0.225	0	0	0	0	0
(15) Other Affiliate - Non-insurer	15	0.225	0	0	0	0	0
(16) Total			0	0	0	0	0

**SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR004**

Affiliated Preferred Stock		(1)	(2)	(3)
Schedule D Part 6 Section 1 C8	Annual Statement Line Number	<u>Annual Statement Total</u> <u>Preferred Stock</u>	<u>Total From RBC Report</u>	<u>Difference</u>
(1) Parent	0199999	0	0	0
(2) U.S. P&C Insurer	0299999	0	0	0
(3) U.S. Life Insurer	0399999	0	0	0
(4) U.S. Health Insurer	0499999	0	0	0
(5) Alien Insurer	0599999	0	0	0
(6) Non-Insurer Which Controls Insurer	0699999	0	0	0
(7) Investment Subsidiary	0799999	0	0	0
(8) Other Affiliates	0899999	0	0	0
(9) Subtotal	0999999	0	0	0

Affiliated Common Stock		(1)	(2)	(3)
Schedule D Part 6 Section 1 C8	Annual Statement Line Number	<u>Annual Statement Total</u> <u>Common Stock</u>	<u>Total From RBC Report</u>	<u>Difference</u>
(10) Parent	1099999	0	0	0
(11) U.S. P&C Insurer	1199999	0	0	0
(12) U.S. Life Insurer	1299999	0	0	0
(13) U.S. Health Insurer	1399999	0	0	0
(14) Alien Insurer	1499999	0	0	0
(15) Non-Insurer Which Controls Insurer	1599999	0	0	0
(16) Investment Subsidiary	1699999	0	0	0
(17) Other Affiliates	1799999	0	0	0
(18) Subtotal	1899999	0	0	0
(19) Affiliated Bonds (Check to Schedule D, Part 1A, Section 1, C 6, L 9.7)		0	0	0

**UNAFFILIATED BONDS PR005**

	Annual Statement Source: Sch D Pt 1A Sn 1	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	Factor	(2) <u>RBC Requirement</u>
(1) Class 01 - U.S. Government - Direct and Guaranteed	C6L1.1	0	0.000	0
(2) Class 01 - U.S. Government Agency NOT BACKED BY FULL FAITH AND CREDIT OF THE US GOVERNMENT	Incl in C6 L10.1 - L9.1	0	0.003	0
(3) Total Class 01 Bonds	C6 L10.1-L8.1	0		
(4) Affiliated Class 01 Bonds	C6 L9.1	0		
(5) Total Other Class 01 Unaffiliated Bonds	L(3)-L(4)-L(1)-L(2)	0	0.003	0
(6) Total Class 02 Bonds	C6 L10.2-L8.2	0		
(7) Affiliated Class 02 Bonds	C6 L9.2	0		
(8) Total Class 02 Unaffiliated bonds	L(6)-L(7)	0	0.010	0
(9) Total Class 03 Bonds	C6 L10.3-L8.3	0		
(10) Affiliated Class 03 Bonds	C6 L9.3	0		
(11) Total Class 03 Unaffiliated bonds	L(9) - L(10)	0	0.020	0
(12) Total Class 04 Bonds	C6 L10.4-L8.4	0		
(13) Affiliated Class 04 Bonds	C6 L9.4	0		
(14) Total Class 04 Unaffiliated bonds	L(12) - L(13)	0	0.045	0
(15) Total Class 05 Bonds	C6 L10.5-L8.5	0		
(16) Affiliated Class 05 Bonds	C6 L9.5	0		
(17) Total Class 05 Unaffiliated bonds	L(15) - L(16)	0	0.100	0
(18) Total Class 06 Bonds	C6 L10.6-L8.6	0		
(19) Affiliated Class 06 Bonds	C6 L9.6	0		
(20) Total Class 06 Unaffiliated bonds	L(18) - L(19)	0	0.300	0
(21) Subtotal - Bonds Subject to Bond Size Factor L(5)+L(8)+L(11)+L(14)+L(17)+L(20)		0		0
(22) Number of Issuers		0		
(23) Bond Size Factor				1.500
(24) Bond Size Factor RBC=L(21) x L(23)				0
(25) Total Unaffiliated Bonds RBC=L(1)+L(2)+L(21)+L(24)		0		0

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

**UNAFFILIATED PREFERRED, COMMON STOCK AND HYBRID SECURITIES PR006**

		(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	Factor	(2) <u>RBC Requirement</u>
Unaffiliated Preferred Stock				
(1) Class 01 Preferred Stock	Sch D Pt 2 Sn 1	0	0.003	0
(2) Class 02 Preferred Stock	Sch D Pt 2 Sn 1	0	0.010	0
(3) Class 03 Preferred Stock	Sch D Pt 2 Sn 1	0	0.020	0
(4) Class 04 Preferred Stock	Sch D Pt 2 Sn 1	0	0.045	0
(5) Class 05 Preferred Stock	Sch D Pt 2 Sn 1	0	0.100	0
(6) Class 06 Preferred Stock	Sch D Pt 2 Sn 1	0	0.300	0
<b>(7) SUBTOTAL - UNAFFILIATED PREFERRED STOCK</b> <b>(should equal P2 L2.1 C3 less Sch D-Sum C1 L18)</b>	<b>Sum of Ls(1) through (6)</b>	<b>0</b>		<b>0</b>
<b>Hybrid Securities</b>				
(8) Class 01 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.1)	0	0.003	0
(9) Class 02 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.2)	0	0.010	0
(10) Class 03 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.3)	0	0.020	0
(11) Class 04 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.4)	0	0.045	0
(12) Class 05 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.5)	0	0.100	0
(13) Class 06 Hybrid Securities	Sch D Pt 1A Sn 1 C(6) L (8.6)	0	0.300	0
<b>(14) SUBTOTAL - HYBRID SECURITIES</b>	<b>Sum of Ls(8) through (13)</b>	<b>0</b>		<b>0</b>
<b>(15) Total Unaffiliated Preferred Stock and Hybrid Securities</b>	<b>Line (7) + Line (14)</b>	<b>0</b>		<b>0</b>
Unaffiliated Common Stock				
(16) Non-government money market funds	Sch D Pt 2 Sn 2 C(6) L(9399999)	0	0.003	0
(17) Total Common Stock	Sch D - summary C1 L25	0		0
(18) Affiliated Common Stock	Sch D - summary C1 L24	0		0
(19) Non-admitted Unaffiliated Common Stock	P2 C2 L2.2 in part	0		0
(20) Other Admitted Unaffiliated Common Stock	L(17) - L(16) - L(18) - L(19)	0	0.150	0
(21) Fair Value Excess Affiliated Common Stock	PR002 C(17) L(9999999)	0		0
<b>(22) Total Admitted Unaffiliated Common Stock</b>	<b>L(16) + L(20) + L(21)</b>	<b>0</b>		<b>0</b>

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



**OTHER LONG-TERM ASSETS PR007**

	Annual Statement Source	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
(1) Company Occupied Real Estate	P2 L4.1 C3	<u>0</u>	0.100	<u>0</u>
(2) Encumbrances	P2 L4.1, inside item	<u>0</u>	0.100	<u>0</u>
(3) Property Held For the Production of Income	P2 L4.2 C3	<u>0</u>	0.100	<u>0</u>
(4) Property Held For Sale	P2 L4.3 C3	<u>0</u>	0.100	<u>0</u>
(5) Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	<u>0</u>	0.100	<u>0</u>
(6) Encumbrances (Property Held For Sale)	P2 L4.3, inside item	<u>0</u>	0.100	<u>0</u>
(7) Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	<u>0</u>		<u>0</u>
(8) Mortgage Loans - First Liens	P2 L3.1 C3	<u>0</u>	0.050	<u>0</u>
(9) Mortgage Loans - Other Than First Liens	P2 L3.2 C3	<u>0</u>	0.050	<u>0</u>
(10) Total Mortgage Loans	L(8) + L(9)	<u>0</u>		<u>0</u>
(11) Schedule BA Assets - Total	P2 L7 C3	<u>0</u>		
(12) Less: Collateral Loans	PR008 L(14)	<u>0</u>		
(13) Schedule BA Assets Excluding Collateral Loans	L(11) - L(12)	<u>0</u>	0.200	<u>0</u>
(14) Total Other Long-Term Assets	L(7)+L(10)+L(13)	<u>0</u>		<u>0</u>

**MISCELLANEOUS ASSETS PR008**

	Annual Statement Source	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	Factor	(2) <u>RBC Requirement</u>
(1) Receivable for Securities	P2C3L8	0	0.050	0
(2) Aggregate W/I for Invest Assets	P2C3 L9	0	0.050	0
(3) Cash	P2 L5, inside amt 1	0	0.003	0
(4) Cash Equivalents	P2 L5, inside amt 2	0		
(5) Less: Cash Equivalent, Bonds included in Schedule D, Part 1A	Sch E Pt 2 C6 L8399999 in part	0		
(6) Net Cash Equivalents	L(4)-L(5)	0	0.003	0
(7) Short-Term Investments	P2 L5, inside amt 3	0		
(8) Less Short-Term Bonds*	Sch DA Pt 1 C8 L8399999	0		
(9) Less Exempt Money Market Mutual Funds*	Sch DA Pt 1 C8 L8899999	0		
(10) Less Class One Money Market Mutual Funds*	Sch DA Pt 1 C8 L8999999	0		
(11) Total Other Short-Term Investments	L(7)-L(8)-L(9)-L(10)	0	0.003	0
(12) Collateral Loans	Sch BA Pt1 C12 L2399999+2499999	0		
(13) Less: Non-admitted Collateral Loans	P2 L7 C2 in part	0		
(14) Net admitted Collateral Loans	L(12) - L(13)	0	0.050	0
(15) Total Miscellaneous Assets	L(1)+L(2)+L(3)+L(6)+L(11)+L(14)	0		0

\* These bonds appear in Schedule D Part 1A Section 1 and are already recognized in the Bonds portion of the formula.

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

REPLICATION (SYNTHETIC ASSET) TRANSACTIONS AND MANDATORILY CONVERTIBLE SECURITIES PR009

	(1) RSAT Number	(2) Type	(3) CUSIP	(4) Description of Assets	(5) NAIC Designation or Other Description of Asset	(6) Value of Asset	(7) RBC Requirement
0000001						0	0
0000002						0	0
0000003						0	0
0000004						0	0
0000005						0	0
0000006						0	0
0000007						0	0
0000008						0	0
0000009						0	0
0000010						0	0
0000011						0	0
0000012						0	0
0000013						0	0
0000014						0	0
0000015						0	0
0000016						0	0
0000017						0	0
0000018						0	0
0000019						0	0
0000020						0	0
0000021						0	0
0000022						0	0
0000023						0	0
0000024						0	0
0000025						0	0
0000026						0	0
0000027						0	0
0000028						0	0
0000029						0	0
0000030						0	0
0000031						0	0
0000032						0	0
0000033						0	0
0000034						0	0
0000035						0	0
0000036						0	0
0000037						0	0
0000038						0	0
0000039						0	0
0000040						0	0
(9999999)	xxxxx	xxxxx	xxxxx	Total	xxxxx	0	0

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

**ASSET CONCENTRATION PR010**

	(1)	(2)	(3)	
ISSUER #1		<u>Book/Adjusted Carrying Value</u>	<u>Factor</u>	
			<u>Additional RBC</u>	
(1) Class 2 Unaffiliated Bonds		0	0.010	0
(2) Class 3 Unaffiliated Bonds		0	0.020	0
(3) Class 4 Unaffiliated Bonds		0	0.045	0
(4) Class 5 Unaffiliated Bonds		0	0.100	0
(5) Collateral Loans		0	0.050	0
(6) Mortgage Loans		0	0.050	0
(7) SUBTOTAL - FIXED INCOME		0		0
(8) Class 02 Preferred Stock		0	0.010	0
(9) Class 03 Preferred Stock		0	0.020	0
(10) Class 04 Preferred Stock		0	0.045	0
(11) Class 05 Preferred Stock		0	0.100	0
(12) Class 02 Hybrid <b>Securities</b>		0	0.010	0
(13) Class 03 Hybrid <b>Securities</b>		0	0.020	0
(14) Class 04 Hybrid <b>Securities</b>		0	0.045	0
(15) Class 05 Hybrid <b>Securities</b>		0	0.100	0
(16) Property Held For Production of Income Excluding Home Office		0	0.100	0
(17) Property Held For Production of Income Encumbrance Excluding Home Office		0	0.100	0
(18) Schedule BA Assets		0	0.100	0
(19) Receivable for Securities		0	0.050	0
(20) Aggregate Write-Ins for Invested Assets		0	0.050	0
(21) Unaffiliated Common Stock		0	0.150	0
(22) SUBTOTAL - EQUITY		0		0
(23) TOTAL - ISSUER #1 (L7+L22)		0		0

**ASSET CONCENTRATION PR010**

COMBINED TOTALS - ALL ISSUERS		(1)	(2)	(3)	
			<u>Book/Adjusted Carrying Value</u>	<u>Factor</u>	<u>Additional RBC</u>
(1)	Class 2 Unaffiliated Bonds		0	0.010	0
(2)	Class 3 Unaffiliated Bonds		0	0.020	0
(3)	Class 4 Unaffiliated Bonds		0	0.045	0
(4)	Class 5 Unaffiliated Bonds		0	0.100	0
(5)	Collateral Loans		0	0.050	0
(6)	Mortgage Loans		0	0.050	0
(7)	SUBTOTAL - FIXED INCOME		0		0
(8)	Class 02 Preferred Stock		0	0.010	0
(9)	Class 03 Preferred Stock		0	0.020	0
(10)	Class 04 Preferred Stock		0	0.045	0
(11)	Class 05 Preferred Stock		0	0.100	0
(12)	Class 02 Hybrid <b>Securities</b>		0	0.010	0
(13)	Class 03 Hybrid <b>Securities</b>		0	0.020	0
(14)	Class 04 Hybrid <b>Securities</b>		0	0.045	0
(15)	Class 05 Hybrid <b>Securities</b>		0	0.100	0
(16)	Property Held For Production of Income Excluding Home Office		0	0.100	0
(17)	Property Held For Production of Income Encumbrance Excluding Home Office		0	0.100	0
(18)	Schedule BA Assets		0	0.100	0
(19)	Receivable for Securities		0	0.050	0
(20)	Aggregate Write-Ins for Invested Assets		0	0.050	0
(21)	Unaffiliated Common Stock		0	0.150	0
(22)	SUBTOTAL - EQUITY		0		0
(23)	<u>GRAND TOTAL - ALL ISSUERS: Sum of lines (L7+L22)</u>		0		0

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

**CREDIT RISK FOR RECEIVABLES PR011**

		(1)	(2)	(3)	(4)	
Reinsurance Recoverables	Annual Statement Source	Statement Value	Applicable Penalty †	Amount Subj to RBC C(1)-C(2)	RBC Requirement	
(1) Authorized Alien Affiliates	Sch F Pt 3, C15, L0399999	0 *	0	0	0.100	0
(2) Authorized U.S. Unaffiliated Insurers	Sch F Pt 3, C15, L0599999	0 *	0	0	0.100	0
(3) Authorized Voluntary Pools	Sch F Pt 3, C15, L0799999	0 *	0	0	0.100	0
(4) Authorized Alien Unaffiliates	Sch F Pt 3, C15, L0899999	0 *	0	0	0.100	0
(5) Unauthorized Alien Affiliates	Sch F Pt 3, C15, L1299999	0 *	0	0	0.100	0
(6) Unauthorized U.S. Unaffiliated Insurers	Sch F Pt 3, C15, L1499999	0 *	0	0	0.100	0
(7) Unauthorized Voluntary Pools	Sch F Pt 3, C15, L1699999	0 *	0	0	0.100	0
(8) Unauthorized Alien Unaffiliates	Sch F Pt 3, C15, L1799999	0 *	0	0	0.100	0
(9) Total Reinsurance Recoverables		0	0	0		0
(10) Federal Income Tax Recoverable	P2 C3 L16.1 + 16.2	0			0.050	0
(11) Guaranty Funds Receivable or on Deposit	P2 C3 L17	0			0.050	0
(12) Investment Income Due & Accrued	P2 C3 L12	0			0.010	0
(13) Recov from Parent, Subs, Affils	P2 C3 L21	0			0.050	0
(14) Amts Receive relating to Uninsured A&H Plans	P2 C3 L15	0			0.050	0
(15) Aggregate W/I for Other Than Invest Assets	P2 C3 L23	0			0.050	0
(16) Total Credit RBC=C3 L(09)+Sum of C1 L(10) though L(15)		0				0

\* Schedule F data should be brought to full dollar amount by multiplying 1000.

† Column 2 Line 9: Applicable Penalty for Total Reinsurance Recoverables should equal AST page 3 Line 16 less PR035 line 1 through line 3.

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

**HEALTH CREDIT RISK PR012**

	PRBC Data Source	(1) <u>Amount</u>	Factor	(2) <u>RBC Requirement</u>
<b>Capitations to Intermediaries</b>				
(1)	Total Capitations Paid Directly to Providers	PR020 Underwriting Risk Managed Care Credit Col (2) Line (5)		
		<u>0</u>		
(2)	Less Secured Capitations to Providers	Company Records		
		<u>0</u> *		
(3)	Net Capitations to Providers Subject to Credit Risk Charge	L(1) - L(2)	0.020	<u>0</u>
(4)	Total Capitations to Intermediaries	PR020 Column (2) Lines (6) + (7)		
		<u>0</u>		
(5)	Less Secured Capitations to Intermediaries	Company Records		
		<u>0</u> *		
(6)	Net Capitations to Intermediaries Subject to Credit Risk Charge	L(4) – L(5)	0.040	<u>0</u>
(7)	Capitation Credit Risk RBC	L(3) + L(6)		<u>0</u>
<b>Health ASO/ASC Credit Risk</b>				
(8)	ASC Claims Reported as Incurred Claims	Company Records	0.010	<u>0</u>
(9)	Other Medical Costs Paid through ASC Arrangements	Company Records	0.010	<u>0</u>
(10)	Fee-for Service Received from Health Insurer	Company Records	0.010	<u>0</u>
(11)	Total Health ASO/ASC Credit Risk	L(8) + L(9) + L(10)		<u>0</u>
(12)	Total Health Credit Risk	L(7) + L(11)		<u><u>0</u></u>

\* Enter amounts of secured capitation in PRCPT. Click on the yellow cells to go to the worksheet.

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

**MISCELLANEOUS OFF-BALANCE SHEET ITEMS PR013**

			(1)		(2)
		Annual Statement Source	<u>Statement Value</u>	<u>Factor</u>	<u>RBC Requirement</u>
(1)	Non-controlled Assets	General Interrogatories Part 1 L22.5	0	0.002	0
(2)	Non-controlled Assets	General Interrogatories Part 1 L22.6	0	0.010	0
(3)	Non-controlled Assets	General Interrogatories Part 1 L23.21	0	0.010	0
(4)	Non-controlled Assets	General Interrogatories Part 1 L23.22	0	0.010	0
(5)	Non-controlled Assets	General Interrogatories Part 1 L23.23	0	0.010	0
(6)	Non-controlled Assets	General Interrogatories Part 1 L23.24	0	0.010	0
(7)	Non-controlled Assets	General Interrogatories Part 1 L23.25	0	0.010	0
(8)	Non-controlled Assets	General Interrogatories Part 1 L23.26	0	0.010	0
(9)	Non-controlled Assets	General Interrogatories Part 1 L23.27	0	0.010	0
(10)	Non-controlled Assets	General Interrogatories Part 1 L23.28	0	0.010	0
(11)	Non-controlled Assets	General Interrogatories Part 1 L23.29	0	0.010	0
(12)	Total Non-controlled Assets	Sum of L(1) through L(11)	0		0
(13)	Guarantees for Affiliates	Notes to Financial Statements Item 10e	0	0.010	0
(14)	Contingent Liabilities	Notes to Financial Statements Item 14a1 + Item 26a Amount 2 Unrecorded Loss Contingencies	0	0.010	0
(15)	Total Miscellaneous Off Balance Sheet Items=L(12)+L(13)+L(14)		0		0



OFF-BALANCE SHEET COLLATERAL PR014

Asset Category	Annual Statement Source	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	Factor	(2) <u>RBC Requirement</u>
Fixed Income Assets				
Bonds				
(1) Class 01 - U.S. Government - Direct and Guaranteed	Company Records		0.000	
(2) Other Class 01 Bonds	Company Records		0.003	
(3) Total Class 01 Bonds	L(1)+L(2)			
(4) Total Class 02 Bonds	Company Records		0.010	
(5) Total Class 03 Bonds	Company Records		0.020	
(6) Total Class 04 Bonds	Company Records		0.045	
(7) Total Class 05 Bonds	Company Records		0.100	
(8) Total Class 06 Bonds	Company Records		0.300	
(9) Total Bonds	L(3)+L(4)+L(5)+L(6)+L(7)+L(8)			
Equity Assets				
Preferred Stock - Unaffiliated				
(10) Class 01 Unaffiliated Preferred Stock	Company Records		0.003	
(11) Class 02 Unaffiliated Preferred Stock	Company Records		0.010	
(12) Class 03 Unaffiliated Preferred Stock	Company Records		0.020	
(13) Class 04 Unaffiliated Preferred Stock	Company Records		0.045	
(14) Class 05 Unaffiliated Preferred Stock	Company Records		0.100	
(15) Class 06 Unaffiliated Preferred Stock	Company Records		0.300	
(16) Total Unaffiliated Preferred Stock	L(10)+L(11)+L(12)+L(13)+L(14)+L(15)			
(17) Common Stock	Company Records		0.150	
(18) Schedule BA - Other Invested Assets	Company Records		0.200	
(19) Other Invested Assets	Company Records		0.200	
(20) Total	L(9)+L(16)+L(17)+L(18)+L(19)			

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

**EXCESSIVE PREMIUM GROWTH PR015**

	(1) Company Gross Written Premiums*	(2) Company Adjustments	(3) Group Gross Written Premiums*	(4) Group Adjustments	(5) Selected Adjusted Gross Written Premium	(6) Statement Value	(7) Factor	(8) RBC Requirement
(1)	2009	0	0	0	0	xxx		xxx
(2)	2008	0	0	0	0	xxx		xxx
(3)	2007	0	0	0	0	xxx		xxx
(4)	2006	0	0	0	0	xxx		xxx
(5)	2009 Growth Rate=[L(1)-L(2)]/L(2)						0.000	
(6)	2008 Growth Rate=[L(2)-L(3)]/L(3)						0.000	
(7)	2007 Growth Rate=[L(3)-L(4)]/L(4)						0.000	
(8)	Three Year Average Growth Rate						0.000	
(9)	Two Year Average Growth Rate						0.000	
(10)	One Year Average Growth Rate						0.000	
(11)	Selected Average Growth Rate						0.000	
(12)	RBC Average Growth Rate=L(11) - 10%, capped to fall between 0% and 30%						0.000	
(13)	Excessive Growth Charge Applied to Loss/Expense Reserve from Schedule P Summary C24 L12 x 1000(in whole dollars)					0	0.000	0
(14)	Excessive Growth Charge Applied to Net Written Premiums from U&I Exhibit Pt 1B C6 L35					0	0.000	0

\*Enter Company and Group Gross Written Premiums in PR034. Click on the yellow cells to go to the worksheet.  
 Denotes items that must be manually entered on the filing software.

Footnote	Name of Involuntary Residual Market (For Servicing Carrier only)	Adjustment Amount
(0000001)		
(0000002)		
(0000003)		
(0000004)		
(9999999) Total		

UNDERWRITING RISK - RESERVES PR016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
SCH P LINE OF BUSINESS	H/F	PPA	CA	WC	CMP	MPL OCCURRENCE	MPL CLMS MADE	SL	OL	FIDELITY / SURETY	SPECIAL PROPERTY	PHYSICAL DAMAGE
(1) INDUSTRY AVERAGE DEVELOPMENT	0.983	0.998	1.031	1.016	0.993	1.251	1.033	1.043	0.963	1.247	1.097	1.107
(2) COMPANY DEVELOPMENT	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(3) (2)/(1)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(4) INDUSTRY LOSS & EXPENSE RBC %	0.206	0.199	0.238	0.310	0.439	0.439	0.283	0.249	0.478	0.315	0.184	0.118
(5) COMPANY RBC % (4)*(3)*.5+(4)*.5	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(6) LOSS +EXPENSE UNPAID SCH. P PART 1 (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(7) OTHER DISCOUNT AMOUNT NOT INCLUDED IN LOSS+EXPENSE UNPAID IN SCH. P PART 1 (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(8) ADJUSTMENT FOR INVESTMENT INCOME	0.939	0.927	0.909	0.835	0.884	0.869	0.893	0.901	0.862	0.957	0.966	0.975
(9) CASE LOSS+EXPENSE RESERVE RISK-BASED CAPITAL (000s) MAX {0,[(5)+1]*(8)-1}*[(6)+(7)] zero if Line [(6)+(7)] is negative	0	0	0	0	0	0	0	0	0	0	0	0
(10) % DIRECT LOSS SENS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(11) % ASSUMED LOSS SENS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(12) LOSS SENSITIVE DISCOUNT (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(13) LOSS+EXPENSE RBC AFTER DSCT (in 000s) L(09) - L(12)	0	0	0	0	0	0	0	0	0	0	0	0
(14) LOSS CONCEN FACTOR												
(15) NET LOSS+EXPENSE RBC x1000 (converted to whole dollars)												

This worksheet is to show the results of the calculation of Underwriting Risk - Reserves

Enter data in PR032 through PR036, PR100 through PR701 and PROTH

UNDERWRITING RISK - RESERVES PR016

	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
SCH P LINE OF BUSINESS	OTHER (CREDIT,A&H)	MORTGAGE GUARANTY	INTL	PROPERTY & FINANCIAL	REIN. LIABILITY	PL	WARRANTY	TOTAL
(1) INDUSTRY AVERAGE DEVELOPMENT	1.262	0.893	1.181	0.969	1.259	1.073	1.634	XXX
(2) COMPANY DEVELOPMENT	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(3) (2)/(1)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(4) INDUSTRY LOSS & EXPENSE RBC %	0.183	0.150	0.327	0.278	0.750	0.627	0.315	XXX
(5) COMPANY RBC % (4)*(3)*.5+(4)*.5	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(6) LOSS +EXPENSE UNPAID SCH. P PART 1 (in 000s)	0	0	0	0	0	0	0	0
(7) OTHER DISCOUNT AMOUNT NOT INCLUDED IN LOSS+EXPENSE UNPAID IN SCH. P PART 1 (in 000s)	0	0	0	0	0	0	0	0
(8) ADJUSTMENT FOR INVESTMENT INCOME	0.964	0.962	0.877	0.901	0.834	0.838	0.957	XXX
(9) CASE LOSS+EXPENSE RESERVE RISK-BASED CAPITAL (000s) MAX {0,[(5)+1]*(8)-1}*[(6)+(7)]} zero if Line [(6)+(7)] is negative	0	0	0	0	0	0	0	0
(10) % DIRECT LOSS SENS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	XXX
(11) % ASSUMED LOSS SENS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	XXX
(12) LOSS SENSITIVE DISCOUNT (in 000s)	0	0	0	0	0	0	0	0
(13) LOSS+EXPENSE RBC AFTER DSCT (in 000s) L(09) - L(12)	0	0	0	0	0	0	0	0
(14) LOSS CONCEN FACTOR								1.000
(15) NET LOSS+EXPENSE RBC x1000 (converted to whole dollars)								0

This worksheet is to show the results of the calculation of Underwriting F

Enter data in PR032 through PR036, PR100 through PR701 and PROTH

UNDERWRITING RISK - NET WRITTEN PREMIUMS PR017

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
SCH P LINE OF BUSINESS	H/F	PPA	CA	WC	CMP	MPL OCCURRENCE	MPL CLMS MADE	SL	OL	FIDELITY / SURETY	SPECIAL PROPERTY	AUTO PHYSICAL DAMAGE
(1) INDUSTRY AVERAGE LOSS & EXPENSE RATIO	0.737	0.821	0.737	0.805	0.695	1.104	0.928	0.673	0.714	0.586	0.575	0.697
(2) COMPANY AVERAGE LOSS & EXPENSE RATIO	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(3) (2)/(1)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(4) INDUSTRY LOSS & EXPENSE RATIO	0.949	0.983	1.005	1.051	0.935	1.842	1.071	0.910	1.045	0.863	0.955	0.847
(5) COMPANY RBC LOSS & EXPENSE RATIO (3)*(4)*0.5+(4)*0.5	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(6) COMPANY UNDERWRITING EXPENSE RATIO	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(7) ADJUSTMENT FOR INVESTMENT INCOME	0.951	0.921	0.883	0.832	0.888	0.778	0.835	0.897	0.820	0.921	0.944	0.972
(8) C/Y NET WRITTEN PREMIUM (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(9) BASE WRITTEN PREMIUM RISK-BASED CAPITAL (in 000s) MAX {0,(8)*[(5)*(7)+(6)-1]} zero if Line (8) is negative	0	0	0	0	0	0	0	0	0	0	0	0
(10) % DIRECT LOSS SENS WP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(11) % ASSUMED LOSS SENS WP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(12) LOSS SENSITIVE DSCT - WP (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(13) NWP RBC AFTER DSCT (in 000s)	0	0	0	0	0	0	0	0	0	0	0	0
(14) PREMIUM CONCENTRATION FACTOR												
(15) NET WRITTEN PREMIUM RBC x 1000 (converted to whole dollars)												

This worksheet is to show the results of the calculation of Underwriting Risk - Net Written Premiums

Enter data in PR032 through PR036, PR100 through PR701 and PROTH

UNDERWRITING RISK - NET WRITTEN PREMIUMS PR017

	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
SCH P LINE OF BUSINESS	OTHER (CREDIT,A&H)	FINANCIAL/M ORTGAGE GUARANTY	INTL	REIN. PROPERTY & FINANCIAL LINES	REIN. LIABILITY	PL	WARRANTY	TOTAL
(1) INDUSTRY AVERAGE LOSS & EXPENSE RATIO	0.697	0.605	0.956	0.924	1.107	0.780	0.800	XXX
(2) COMPANY AVERAGE LOSS & EXPENSE RATIO	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(3) (2)/(1)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(4) INDUSTRY LOSS & EXPENSE RATIO	0.891	1.400	1.169	1.337	1.419	1.195	0.863	XXX
(5) COMPANY RBC LOSS & EXPENSE RATIO (3)*(4)*0.5+(4)*0.5	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(6) COMPANY UNDERWRITING EXPENSE RATIO	0.000	0.000	0.000	0.000	0.000	0.000	0.000	XXX
(7) ADJUSTMENT FOR INVESTMENT INCOME	0.956	0.916	0.901	0.884	0.810	0.778	0.921	XXX
(8) C/Y NET WRITTEN PREMIUM (in 000s)	0	0	0	0	0	0	0	0
(9) BASE WRITTEN PREMIUM RISK-BASED CAPITAL (in 000s) MAX {0,(8)*[(5)*(7)+(6)-1]} zero if Line (8) is negative	0	0	0	0	0	0	0	0
(10) % DIRECT LOSS SENS WP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	XXX
(11) % ASSUMED LOSS SENS WP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	XXX
(12) LOSS SENSITIVE DSCT - WP (in 000s)	0	0	0	0	0	0	0	0
(13) NWP RBC AFTER DSCT (in 000s)	0	0	0	0	0	0	0	0
(14) PREMIUM CONCENTRATION FACTOR								1.000
(15) NET WRITTEN PREMIUM RBC x 1000 (converted to whole dollars)								0

This worksheet is to show the results of the calcu  
Enter data in PR032 through PR036, PR100 thro

**HEALTH PREMIUMS PR018**

		(1)		(2)
		Annual Statement Source	Statement Value	RBC Requirement
<b>Medical Insurance Premium - Individual Morbidity</b>				
(1)	Usual and Customary Major Medical and Hospital	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(2)	Medicare Supplement	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(3)	Dental & Vision	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(3.1)	<b>Stand-Alone</b> Medicare Part D Coverage	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(3.2)	Supplemental benefits within <b>Stand-Alone</b> Part D Coverage	Earned Premium (Schedule H Part 1 Line 2 in part)	0 <b>0.210</b>	0
(4)	Hospital Indemnity and Specified Disease	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.035 *	0
(5)	AD&D (Maximum Retained Risk Per Life 0 )	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(6)	Other Accident	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.050	0
<b>Medical Insurance Premium - Group and Credit Morbidity</b>				
(7)	Usual and Customary Major Medical, Hospital	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(8)	Dental & Vision	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(9)	Stop Loss and Minimum Premium	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.250	0
(10)	Medicare Supplement	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(10.1)	<b>Stand-Alone</b> Medicare Part D Coverage (see instructions for limits)	Earned Premium (Schedule H Part 1 Line 2 in part)	0 †	XXX
(10.2)	Supplemental benefits within <b>Stand-Alone</b> Part D Coverage	Earned Premium (Schedule H Part 1 Line 2 in part)	0 <b>0.210</b>	0
(11)	Hospital Indemnity and Specified Disease	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.035 *	0
(12)	AD&D (Maximum Retained Risk Per Life 0 )	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(13)	Other Accident	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.050	0
(14)	Federal Employee Health Benefit Plan	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.000	0
<b>Disability Income Premium</b>				
(15)	Noncancellable Disability Income - Individual Morbidity	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(16)	Other Disability Income - Individual Morbidity	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(17)	Disability Income - Credit Monthly Balance Plans	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(18)	Disability Income - Group Long-Term	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(19)	Disability Income - Credit Single Premium with Additional Reserve	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(20)	Disability Income - Credit Single Premium without Additional Reserve	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
(21)	Disability Income - Group Short-Term	Earned Premium (Schedule H Part 1 Line 2 in part)	0 ‡	0
<b>Long-Term Care</b>				
(22)	Noncancellable Long-Term Care Premium - Rate Risk**	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.100	0
(23)	Other Long-Term Care Premium ‡ ‡	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.000	0
<b>Health Premium with Limited Underwriting Risk</b>				
(24)	ASC Business with Premium Revenue	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.000	0
<b>Other Health</b>				
(25)	Other Health	Earned Premium (Schedule H Part 1 Line 2 in part)	0 0.120	0
(26)	Total Earned Premiums	Sum of Lines (1) through (25)	0	0
C(1), L(26) should equal Schedule H Part 1 Column 1 Line 2				
(27)	Additional Reserves for Credit Disability Plans	Company records	0 §	
(28)	Additional Reserves for Credit Disability Plans, prior year	Company records	0 §	

† The premium amounts in these lines are transferred to PR019 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement, Dental & Vision **and Stand-Alone Medicare Part D Coverage** Lines (1.1) and (1.2) for the calculation of risk-based capital. The premium amounts are included here to assist in the balancing of total health premium. If managed care arrangements have been entered into, the company may also complete PR020 Underwriting Risk – Managed Care Credit. In which case, the company will also need to complete PR011 Health Credit Risk in the formula.

If there are amounts in any of lines (1), (2), (3), (7), (8) or (10) on page PR018 Health Premiums, the company will also be directed to complete the Health Administrative Expense portion of PR021.

‡ The two tiered calculation is illustrated in the risk-based capital instructions for PR018 Health Premiums.

‡ ‡ The balance of the RBC requirement for Long Term Care - Morbidity Risk is calculated on Page PR022. The premium is shown to allow totals to check to Schedule H.

\* If there is premium included on either or both of these lines, the RBC value in Column (2) will include 3.5% of such premium and \$50,000 (included in the line with the larger premium).

\*\* The factor applies to all Noncancellable premium.

§ These amounts are used to adjust the premium base for single premium credit disability plans that carry additional tabular reserves.

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

**UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR019**

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	Comprehensive Medical	Medicare Supplement	Dental & Vision	<b>Stand-Alone</b> Medicare Part D Coverage	TOTAL
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	0	0	0
(3) Title XIX-Medicaid†	0	XXX	0	0	0
(4) Other Health Risk Revenue†	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.000	0.000	0.000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.150	0.105	0.120	<b>0.251</b>	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.090	0.067	0.076	<b>0.151</b>	XXX
(10.3) Composite Underwriting Risk Factor	0.000	0.000	0.000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR020 Column (3) Line (12)	0.000	0.000	0.000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [ {Line(1.1) x 1.2 + Line (1.2)} / Line (1.3) ] x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge£	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17) )	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For **Stand-Alone** Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

\* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum of Columns (1), (2) (3) and (4)
	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 6 x Maximum Individual Risk	

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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



**UNDERWRITING RISK - MANAGED CARE CREDIT PR020**

		(2)	(3)	(4)
		Paid	Weighted	Part D
		Claims	Claims†	Weighted
		Factor	Claims†	Claims††
<b>Comprehensive Medical, Medicare Supplement and Dental &amp; Vision Claim Payments</b>		<u>Annual Statement Source</u>		
(1)	Category 0 - Arrangements not Included in Other Categories	Company records	0	0
(2)	Category 1 - Payments Made According to Contractual Arrangements	Company records	0	0
(3)	Category 2a - Subject to Withholds or Bonuses – Otherwise Category 0*	Company records	0	0
(4)	Category 2b - Subject to Withholds or Bonuses – Otherwise Category 1**	Company records	0	0
(5)	Category 3a - Capitated Payments Directly to Providers	Company records	0	0
(6)	Category 3b - Capitated Payments to Regulated Intermediaries	Company records	0	0
(7)	Category 3c - Capitated Payments to Non-Regulated Intermediaries	Company records	0	0
(8)	Category 4 - Medical & Hospital Expense Paid as Salary to Providers	Company records	0	0
(9)	Sub-Total Paid Claims	Sum of Lines (1) through (8)	0	0
<b>Stand-Alone Medicare Part D Coverage Claim Payments</b>				
(10.1)	Category 0 - No Federal Reinsurance or Risk Corridor Protection	Company records	XXX	XXX
(10.2)	Category 1 - Federal Reinsurance but no Risk Corridor Protection	Company records	XXX	XXX
(10.3)	Category 2a - No Federal Reinsurance but Risk Corridor Protection	Company records	0	0
(10.4)	Category 3a - Federal Reinsurance and Risk Corridor Protection apply	Company records	0	0
(10.5)	Sub-Total Paid Claims	Sum of Lines (10.1) through (10.4)	0	0
(10.6)	Total Paid Claims	Sum of Lines (9) and (10.5)	0	
(11)	Weighted Average Managed Care Discount	Col (3) = Col (3) Line (9) / Col (2) Line (9)		0.000
(12)	Weighted Average Managed Care Risk Adjustment Factor	Col (4) = Col (4) Line (10.5) / Col (2) Line (10.5) Col (3) = 1.0 - Col (3) Line (11) Col (4) = 1.0 - Col (4) Line (11)		0.000
<b>Calculation of Category 2 Managed Care Factor</b>		(1)		
		<u>Amount</u>		
(13)	Withhold & bonus payments, prior year	Company Records	0	
(14)	Withhold & bonuses available, prior year	Company Records	0	
(15)	Managed Care Credit Multiplier – average withhold returned	Line (13) / Line (14)	0.000	
(16)	Withholds & bonuses available, prior year	Line (14)	0	
(17)	Claims payments subject to withhold, prior year	Company Records	0	
(18)	Average withhold rate, prior year	Line (16) / Line (17)	0.000	
(19)	Managed Care Credit Discount Factor, Category 2	Minimum of 0.25 or Line (15) x Line (18)	0.000	

\* Category 2 Managed Care Factor calculated on Line (19)

\*\*Category 2 Managed Care Factor calculated on Line (19) with a minimum factor of 15 percent.

† This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental managed care discount factor.

†† This column is for the Medicare **Stand-Alone** Part D managed care discount factor.

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

**UNDERWRITING RISK - OTHER AND TOTAL NET HEALTH PREMIUM RBC PR021**

	<u>Data Source</u>	(1) <u>Amount</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
<b>Rate Guarantees &amp; Federal Employees Health Benefits</b>				
(1) Business with Rate Guarantees Between 15-36 Months	Company Records	0	0.024	0
(2) Business with Rate Guarantees Over 36 Months	Company Records	0	0.064	0
(3) Federal Employees Health Benefit Program (FEHBP) Claims Incurred	Company Records	0	0.020	0
(4) Total, Rate Guarantees & Federal Employees Health Benefits	L(1) + L(2) + L(3)	0		0
<b>Administrative Expenses for Certain A&amp;H Coverages</b>				
(5) Total Accident and Health Premiums	PR018 Health Premiums Column (1) Line (26)	0		
(6) Accident and Health Premiums from Underwriting Risk	PR019 Underwriting Risk Column (6) Line (1.3)	0		
(7) Accident and Health Premiums Factor	L(6)/L(5)	0.000		
(8) Administrative Expenses for Health Insurance	Company Records	0		
(9) Less Administrative Expenses for Administrative Service Contracts (ASC) included in Line (8)	Company Records	0		
(10) Less Administrative Expenses for Administrative Services Only (ASO) Business included in Line (8)	Company Records	0		
(11) Less Administrative Expenses for Commissions and Premium Taxes	Company Records	0		
(12) Net Administrative Expenses	L(8) - L(9) - L(10) - L(11)	0		
(13) Composite Health Administrative Expense Risk Factor	(7% of L(6) up to \$25 million + 4% of excess)/L(6)	0.000		
(14) Administrative Expense Component for Health	L(12) x L(7) x L(13)			0
<b>Health ASO/ASC</b>				
(15) Administrative Expenses for ASC Business	Company Records*	0	0.020	0
(16) Administrative Expenses for ASO Business	Company Records*	0	0.020	0
(17) Total Health ASO/ASC	L(15) + L(16)	0		0
(18) Total Underwriting Risk - Other	L(4) + L(14) + L(17)			0
<b>Total Net Health Premium RBC</b>				
(19) Total Health Premium RBC	L(18) + PR018 C(2) L(26) + PR019 C(5) L(18)			0
(20) Premium Concentration Factor	PR017 C(20) L(14)			1.000
(21) Total Net Health Premium RBC	L(19) x L(20)			0

\* Line (15) should be greater than or equal to Line (9). Line (16) should be greater than or equal to Line (10).

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

**LONG-TERM CARE PR022**

	<u>Annual Statement Source</u>	(1) <u>Amount</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
<u>Long-Term Care (LTC) Insurance Premium</u>				
(1)	All LTC Premium - Morbidity Risk (to \$50 million)	Line (4.1) Column (1) up to 50 million	0	0.100
(2)	LTC Premium (over \$50 million) - Morbidity Risk	Remainder of Line (4.1) Column (1) over 50 million	0	0.030
(3)	Premium-based RBC	Col (2), L(1) + L(2)		0

	<u>Annual Statement Source</u>	(1) <u>Premiums</u>	(2) <u>Incurred Claims</u>	(3) Col. (2)/(1) <u>Loss Ratio</u>	(4) <u>RBC Requirement</u>
<u>Historical Loss Ratio Experience</u>					
(4.1)	Current Year	Company Records	0	0.000	
(4.2)	Immediate Prior Year	Company Records	0	0.000	
(4.3)	Average Loss Ratio	If loss ratios are used, [Column (3), Line (4.1) + Line (4.2)]/2, otherwise zero		0.000	
(5)	Adjusted LTC Claims for RBC	If Column (3) Line (4.3) > 0, then [Column (1), Line (1) + Line (2)] X Column (3), Line (4.3), else Column (2) Line (4.1)	0		
(5.1)	Claims (to \$35 million) - Morbidity Risk	Lower of Col (2), Line (5) and \$35 million	0	0.370	†
(5.2)	Claims (over \$35 million) - Morbidity Risk	Excess of Col (2), Line (5) over \$35 million	0	0.120	‡
(6)	Claims-based RBC	L(5.1) + L(5.2)	0		0
(7)	LTC Morbidity Risk	Col (2), L(3) + Col (4), L(6)			0


† If Column (1), Line (4.1) is positive, then a factor of 0.250 is used. Otherwise, a higher factor of 0.370 is used.

‡ If Column (1), Line (4.1) is positive, then a factor of 0.080 is used. Otherwise, a higher factor of 0.120 is used.

§ If Column (1), Line (4.1) or (4.2) are less than or equal to zero or if Column (2), Line (4.1) or (4.2) are less than zero, the loss ratios are not used and Column (3), Line (4.3) is set to zero.

**Health Claim Reserves PR023**

		(1)	(2)
	<u>Annual Statement Source</u>	<u>Statement Value</u>	<u>RBC Requirement</u>
(1)	Individual claim reserves	Company Records	0
(2)	Group & credit claim reserves	L(3) - L(1)	0
(3)	Total Health Claims Reserve RBC	Sch H Pt 2, Sec C, Col 1, Line C1	0
(4)	Loss Concentration Factor	PR016 C(20) L(14)	1.000
(5)	Net Health Claims Reserves RBC	L(3) x L(4)	0

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

**PREMIUM STABILIZATION RESERVES PR024**

	<u>Data Source</u>	(1) <u>Statement Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
<b>Group &amp; Credit Health Premium Stabilization Reserves Reported</b>				
(1)	Stabilization Reserves and Experience Rating Refunds	Company Records		
		0	0.500	0
(2)	Provision for Experience Rating Refunds	Company Records		
		0	0.500	0
(3)	Reserve for Group Rate Credits	Company Records		
		0	0.500	0
(4)	Reserve for Credit Rate Credits	Company Records		
		0	0.500	0
(5)	Premium Stabilization Reserves	Company Records		
		0	0.500	0
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)		
		0		0
<b>Group &amp; Credit Health Risk-Based Capital</b>				
(7)	Maximum Risk-Based Capital	PR023 Health Claim Reserves Column (2) Line (2) + PR018 Health Premiums Column (2) Lines (9), (11), (12), (13), (17), (18), (19), (20) and (21) + [PR019 Underwriting Risk- Premiums Risk Column (5) Line (18) - Column (4) Line (18) x Line (1.2) / Line (1.3) ]		
		0		
(8)	Final Premium Stabilization Reserve Credit	Column (2) Line (6), but not more than Column (1) Line (7)		
		0	-1.000	0

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

**CAPITAL NOTES BEFORE LIMITATION PR025**

<b>Years to Maturity at the Time of the Statement</b>		(1) <u>Original Principal Amount</u>	Limitation <u>Factor</u>	(2) <u>Limitation on Principal Amount</u>	(3) <u>Current Principal Amount</u>	(4) <u>Credit to Total Adjusted Capital*</u>
<b>Capital Notes Maturing 15 Years or less from the Year of Issue</b>						
(1)	Greater than 0 and less than or equal to 1	0	0.00	0	0	0
(2)	Greater than 1 and less than or equal to 2	0	0.20	0	0	0
(3)	Greater than 2 and less than or equal to 3	0	0.40	0	0	0
(4)	Greater than 3 and less than or equal to 4	0	0.60	0	0	0
(5)	Greater than 4 and less than or equal to 5	0	0.80	0	0	0
(6)	Greater than 5	0	1.00	0	0	0
<b>Capital Notes Maturing more than 15 Years from the Year of Issue</b>						
(7)	Greater than 0 and less than or equal to 1	0	0.00	0	0	0
(8)	Greater than 1 and less than or equal to 2	0	0.10	0	0	0
(9)	Greater than 2 and less than or equal to 3	0	0.20	0	0	0
(10)	Greater than 3 and less than or equal to 4	0	0.30	0	0	0
(11)	Greater than 4 and less than or equal to 5	0	0.40	0	0	0
(12)	Greater than 5 and less than or equal to 6	0	0.50	0	0	0
(13)	Greater than 6 and less than or equal to 7	0	0.60	0	0	0
(14)	Greater than 7 and less than or equal to 8	0	0.70	0	0	0
(15)	Greater than 8 and less than or equal to 9	0	0.80	0	0	0
(16)	Greater than 9 and less than or equal to 10	0	0.90	0	0	0
(17)	Greater than 10	0	1.00	0	0	0
(18)	Credit for Capital Notes Before Limitation (sum of lines (1) through (17))	0		0	0	0

\* Column (4) is calculated as the lesser of Column (2) or Column (3).  
 Denotes items that must be manually entered on the filing software.

**CALCULATION OF TOTAL ADJUSTED CAPITAL PR026**

	<u>Annual Statement Reference</u>	(1) <u>Statement Value*</u>	Factor	(2) <u>Adjusted Capital</u>
(1) Capital and Surplus	P3 C1 L35	0	1.000	0
(2) Non-Tabular Discount - Losses	Sch P P1-Sum C32 L12	0	1.000	0
(3) Non-Tabular Discount - Expense	Sch P P1-Sum C33 L12	0	1.000	0
(4) Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(5) Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(6) P&C Subs Non-Tabular Discount - Losses	Subs' Sch P Pt1-Sum C32 L12	0	1.000	0
(7) P&C Subs Non-Tabular Discount - Expense	Subs' Sch P Pt1-Sum C33 L12	0	1.000	0
(8) P&C Subs Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(9) P&C Subs Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(10) AVR - Life Subs	Subs P3 C1 L24.1	0	1.000	0
(11) Dividend Liability - Life Subs	Subs P3 C1 L6.1 + L6.2	0	0.500	0
(12) Total Adjusted Capital Before Capital Notes	L(1)-L(2)-L(3)-L(4)-L(5)-L(6)-L(7)-L(8)-L(9)+L(10)+L(11)			0

**Credit for Capital Notes**

(13.1) Surplus Notes	Page 3 Column 1 Line 31	0		
(13.2) Limitation on Capital Notes	0.5x[Line(12)-Line(13.1)]-Line 13.1, but not less than zero	0		
(13.3) Capital Notes Before Limitation	PR025 Column (4) Line (18)	0		
(13.4) Credit for Capital Notes	Lesser of Column (1) Line (13.2) or Line (13.3)			0
(14) Total Adjusted Capital (Post-Deferred Tax)	Line (12) + Line (13.4)			0

**Sensitivity Test :**

(15) Deferred Tax Assets	Page 2, Line 16.2	0	1.000	0
(15.1) Deferred Tax Liabilities	Page 3, Line 7.2	0	1.000	0
(16) Deferred Tax Assets for Subsidiary	Company Record	0	1.000	0
(16.1) Deferred Tax Liabilities for Subsidiary	Company Record	0	1.000	0
(17) Total Adjusted Capital For Sensitivity Test	Line (14) - Line (15)+(15.1)-(16)+(16.1)			0

\* Report amounts in this column as whole dollars.

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

**Calculation of Total Risk-Based Capital After Covariance PR027 R0-R1**

(1)

<b>R0 - Asset Risk - Subsidiary Insurance Companies</b>		PRBC O&I Reference	RBC Amount
(1)	Affiliated US P&C Insurers - Directly Owned	PR003 L(1)C(5)	0
(2)	Affiliated US P&C Insurers - Indirectly Owned	PR003 L(4)C(5)	0
(3)	Affiliated US Life Insurers - Directly Owned	PR003 L(2)C(5)	0
(4)	Affiliated US Life Insurers - Indirectly Owned	PR003 L(5)C(5)	0
(5)	Affiliated US Health Insurer - Directly Owned	PR003 L(3)C(5)	0
(6)	Affiliated US Health Insurer - Indirectly Owned	PR003 L(6)C(5)	0
(7)	Affiliated Alien Insurers - Directly Owned	PR003 L(8)C(5)	0
(8)	Affiliated Alien Insurers - Indirectly Owned	PR003 L(9)C(5)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR013 L(12) C(2)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR013 L(13) C(2)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR013 L(14) C(2)	0
(12)	<b>Total R0</b>	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)	0
<b>R1 - Asset Risk - Fixed Income</b>			
(13)	Class 01 U.S. Government Agency Bonds	PR005 L(2)C(2)	0
(14)	Unaffiliated Bonds Subject to Size Factor	PR005 L(21)C(2)+PR014L(9)C(2)	0
(15)	Bond Size Factor RBC	PR005 L(24)C(2)	0
(16)	Bonds - Aff'd Invest Sub	PR003 L(7)C(4)	0
(17)	Bonds - Aff'd Hold. Co. in excess of Ins. Subs.	PR003 L(10)C(4)	0
(18)	Bonds - Investment in Parent	PR003 L(11)C(4)	0
(19)	Bonds - Affil US P&C Not Subj to RBC	PR003 L(12)C(4)	0
(20)	Bonds - Affil US Life Not Subj to RBC	PR003 L(13)C(4)	0
(21)	Bonds - Affil US Health Insurer Not Subj to RBC	PR003 L(14)C(4)	0
(22)	Bonds - Affil Non-insurer	PR003 L(15)C(4)	0
(23)	Other Long_Term Assets - Mortgage Loans	PR007 L(10)C(2)	0
(24)	Misc Assets - Collateral Loans	PR008 L(14)C(2)	0
(25)	Misc Assets - Cash	PR008 L(3)C(2)	0
(26)	Misc Assets - Cash Equivalents	PR008 L(6)C(2)	0
(27)	Misc Assets - Other Short_Term Investments	PR008 L(11)C(2)	0
(28)	Replication -Synthetic Asset: One Half	PR009 L(9999999)C(7)	0
(29)	Asset Concentration RBC - Fixed Income	PR010 L(7)C(3) Grand Total Page	0
(30)	<b>Total R1</b>	L(13)+L(14)+L(15)+L(16)+L(17)+L(18)+L(19)+L(20) L(21)+L(22)+L(23)+L(24)+L(25)+L(26)+L(27)+L(28)+L(29)	0



**Calculation of Total Risk-Based Capital After Covariance PR028 R2-R3**

(1)

<b>R2 - Asset Risk - Equity</b>		PRBC O&I Reference	RBC Amount
(31)	Common - Affiliate Investment Subsidiary	PR003 L(7)C(2)	0
(32)	Common - Affiliate Hold. Company. in excess of Ins. Subs.	PR003 L(10)C(2)	0
(33)	Common - Investment in Parent	PR003 L(11)C(2)	0
(34)	Common - Aff'd US P&C Not Subj to RBC	PR003 L(12)C(2)	0
(35)	Common - Affil US Life Not Subj to RBC	PR003 L(13)C(2)	0
(36)	Common - Affil US Health Insurer Not Subj to RBC	PR003 L(14)C(2)	0
(37)	Common - Aff'd Non-insurer	PR003 L(15)C(2)	0
(38)	Preferred - Aff'd Invest Sub	PR003 L(7)C(3)	0
(39)	Preferred - Aff'd Hold. Co. in excess of Ins. Subs.	PR003 L(10)C(3)	0
(40)	Preferred - Investment in Parent	PR003 L(11)C(3)	0
(41)	Preferred - Affil US P&C Not Subj to RBC	PR003 L(12)C(3)	0
(42)	Preferred - Affil US Life Not Subj to RBC	PR003 L(13)C(3)	0
(43)	Preferred - Affil US Health Insurer Not Subj to RBC	PR003 L(14)C(3)	0
(44)	Preferred - Affil Non-insurer	PR003 L(15)C(3)	0
(45)	Unaffiliated Preferred Stock <b>and Hybrid Securities</b>	PR006 L(15)C(2)+PR014L(16)C(2)	0
(46)	Unaffiliated Common Stock	PR006 L(22)C(2)+PR014L(17)C(2)	0
(47)	Other Long_Term Assets - Real Estate	PR007 L(7)C(2)	0
(48)	Other Long_Term Assets - Schedule BA Assets	PR007 L(13)C(2)+PR014L(18)C(2)+PR014L(19)C(2)	0
(49)	Misc Assets - Receivable for Securities	PR008 L(1)C(2)	0
(50)	Misc Assets - Aggregate Write-ins for Invested Assets	PR008 L(2)C(2)	0
(51)	Replication -Synthetic Asset: One Half	PR009 L(9999999)C(7)	0
(52)	Asset Concentration RBC - Equity	PR010 L(22)C(3) Grand Total Page	0
(53)	<b>Total R2</b>	L(31)+L(32)+L(33)+L(34)+L(35)+L(36)+L(37) +L(38)+L(39)+L(40)+L(41)+L(42)+L(43)+L(44)+L(45) +L(46)+L(47)+L(48)+L(49)+L(50)+L(51)+L(52)	0
<b>R3 - Asset Risk - Credit</b>			
(54)	Other Credit RBC	PR011 L(16)C(4)-L(9)C(4)	0
(55)	One half of Rein Recoverables	.5 x PR011 L(9)C(4)	0
(56)	Other half of Rein Recoverables	If R4 L(60)>(R3 L(54) + R3 L(55)), 0, otherwise, R3 L(55)	0
(57)	Health Credit Risk	PR012 L(12)C(2)	0
(58)	<b>Total R3</b>	L(54) + L(55) + L(56) + L(57)	0

**Calculation of Total Risk-Based Capital After Covariance PR029 R4-R5**

(1)

<b>R4 - Underwriting Risk - Reserves</b>		PRBC O&I Reference	RBC Amount
(59)	One half of Reinsurance RBC	If $R4 L(60) > (R3 L(54) + R3 L(55))$ , $R3 L(55)$ , otherwise, 0	0
(60)	Total Adjusted Unpaid Loss/Expense Reserve RBC	PR016 L(15)C(20)	0
(61)	Excessive Premium Growth - Loss/Expense Reserve	PR015 L(13) C(8)	0
(62)	A&H Claims Reserves Adjusted for LCF	PR023 L(5) C(2) + <b>PR022 L(6) C(4)</b>	0
(63)	<b>Total R4</b>	$L(59)+L(60)+L(61)+L(62)$	0

<b>R5 - Underwriting Risk - Net Written Premium</b>			
(64)	Total Adjusted NWP RBC	PR017 L(15)C(20)	0
(65)	Excessive Premium Growth - Written Premiums Charge	PR015 L(14)C(8)	0
(66)	Total Net Health Premium RBC	PR021 L(21)C(2)	0
(67)	Health Stabilization Reserves	PR024 L(8)C(2) + <b>PR022 L(3) C(2)</b>	0
(68)	<b>Total R5</b>	$L(64)+L(65)+L(66)+L(67)$	0

(69)	<b>Total RBC After Covariance</b> = $R0+\text{SQRT}(R1^2+R2^2+R3^2+R4^2+R5^2)$	0
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(70)	<b>Authorized Control Level RBC</b> = $.5 \times \text{Total RBC After Covariance}$	0
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**COMPARISON OF TOTAL ADJUSTED CAPITAL TO RISK-BASED CAPITAL PR031**

**Excluding the Trend Test:**

	<u>Abbreviation</u>	<u>(1)</u> <u>Amount</u>
(1) <b>Total Adjusted Capital (Post-Deferred Tax: PR026 Line 14)</b>		0
(2) Company Action Level=200% of Authorized Control Level	CAL	0
(3) Regulatory Action Level=150% of Authorized Control Level	RAL	0
(4) Authorized Control Level=100% of Authorized Control Level	ACL	0
(5) Mandatory Control Level=70% of Authorized Control Level	MCL	0
(6) Level of Action, if Any (excluding the trend test)		

**Including the Trend Test:**

(7) Level of Action, if Any (including the trend test)		
--	--	--

**THE FOLLOWING NUMBERS MUST BE REPORTED IN THE FIVE YEAR HISTORY EXHIBIT ON THE INDICATED LINE**

Total Adjusted Surplus to Policyholders	Five Yr Hist C1 L28	0
Authorized Control Level Risk-Based Capital	Five Yr Hist C1 L29	0

**UNDERWRITING AND INVESTMENT EXHIBIT - PREMIUMS WRITTEN PR032**

(1) Did your company write Accident and Health Insurance in **2008**?

If answer is yes, please complete Column 2, **2008** Net Premiums Written.

\_\_\_\_\_

(2) Did your company write Accident and Health Insurance in **2007**?

If answer is yes, please complete Column 3, **2007** Net Premiums Written.

\_\_\_\_\_

(3) Were the **total** net Premiums written zero in **2008**?

\_\_\_\_\_

(4) Were the **total** net Premiums written zero in **2007**?

\_\_\_\_\_

**For all companies, enter net premiums written in all Columns, Line 1 through Line 34.**

Line of Business	(1) <b>2009</b> Net Premiums Written	(2) <b>2008</b> Net Premiums Written	(3) <b>2007</b> Net Premiums Written
1. Fire	0	xxx	xxx
2. Allied Lines	0	xxx	xxx
3. Farmowners Multiple Peril	0	xxx	xxx
4. Homeowners Multiple Peril	0	xxx	xxx
5. Commercial Multiple Peril	0	xxx	xxx
6. Mortgage Guaranty	0	xxx	xxx
8. Ocean Marine	0	xxx	xxx
9. Inland Marine	0	xxx	xxx
10. Financial Guaranty	0	xxx	xxx
11.1 Medical <b>Professional Liability</b> - Occurrence	0	xxx	xxx
11.2 Medical <b>Professional Liability</b> - Claims-Made	0	xxx	xxx
12. Earthquake	0	xxx	xxx
13. Group Accident and Health	0	0	0
14. Credit Accident and Health (group and individual)	0	0	0
15. Other Accident and Health	0	0	0
16. Workers' compensation	0	xxx	xxx
17.1 Other Liability - Occurrence	0	xxx	xxx
17.2 Other Liability - Claims-Made	0	xxx	xxx
<b>17.3 Excess Workers' Compensation</b>	<b>0</b>	<b>xxx</b>	<b>xxx</b>
18.1 Products Liability - Occurrence	0	xxx	xxx
18.2 Products Liability - Claims-Made	0	xxx	xxx
19.1, 19.2 Private Passenger Auto Liability	0	xxx	xxx
19.3, 19.4 Commercial Auto Liability	0	xxx	xxx
21. Auto Physical Damage	0	xxx	xxx
22. Aircraft (all perils)	0	xxx	xxx
23. Fidelity	0	xxx	xxx
24. Surety	0	xxx	xxx
26. Burglary and Theft	0	xxx	xxx
27. Boiler and Machinery	0	xxx	xxx
28. Credit	0	xxx	xxx
29. International	0	xxx	xxx
30. Warranty	0	xxx	xxx
31. Reinsurance_Property	0	xxx	xxx
32. Reinsurance Liability	0	xxx	xxx
33. Reinsurance_Financial Lines	0	xxx	xxx
34. Aggregate write-ins for other lines of business	0	xxx	xxx
35. TOTALS	0	0	0

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

**SCH F PT 3 REINSURANCE CREDIT AND MED TABULAR RESERVE PR035**

**Credit Risk for Receivables**

**PR011**

<b>Annual Statement Source</b>	<b>Line</b>	<b>Column</b>	<b>(1) Value</b>
Adjustment For Reinsurance Penalty For Affiliates Applicable To Schedule F			
1 Schedule F Part 3, L0199999, L0299999, L1099999 and L1199999	9	3	
2 Schedule F Part 3, L0799999, Amounts Attributable To Exempt Pools	9	3	
3 Schedule F Part 3, L1699999, Amounts Attributable To Exempt Pools	9	3	

**Underwriting Risk - Reserves**


**PR016**

<b>Annual Statement Source: Medical Tabular Reserve Discount</b>	<b>Line</b>	<b>Column</b>	<b>Value (000 Omitted)</b>
4 Homeowner/Farmowner	7	1	0
5 Private Pass Auto Liab	7	2	0
6 Comm Auto Liab	7	3	0
7 Workers' Comp	7	4	0
8 Comm Multi Peril	7	5	0
9 Medical <b>Professional Liability</b> - Occurrence	7	6	0
10 Medical <b>Professional Liability</b> - Claims-Made	7	7	0
11 Special Liab	7	8	0
12 Other Liab - Occurrence	7	9	0
13 Other Liab - Claims Made	7	9	0
14 Fidelity & Surety	7	10	0
15 Special Property	7	11	0
16 Auto Physical Damage	7	12	0
17 Other (Credit, A&H)	7	13	0
18 Fin Guaranty/Mrtg Guaranty	7	14	0
19 International	7	15	0
20 Medical Tabular Reserve Discount - Reinsurance :Property	7	16	0
21 Medical Tabular Reserve Discount - Reinsurance :Liability	7	17	0
22 Medical Tabular Reserve Discount - Reinsurance :Financial Lines	7	16	0
23 Product Liab - Occurence	7	18	0
24 Product Liab - Claims Made	7	18	0
25 Warranty	7	19	0
26 Total	7	20	0

**Underwriting Risk - Premiums**


**PR017**

<b>Annual Statement Source : STMTINCOME (page 4, col.1 ln 4)</b>	<b>Line</b>	<b>Column</b>	<b>Value</b>
27 Other Underwriting Expenses Incurred	6	1	0

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

## GROSS WRITTEN PREMIUMS PR036

	<u>Description</u>	<u>Annual Statement Source</u>	(1) <u>Statement Value</u>
(1)	<b>2009</b> Company Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L35	0
(2)	<b>2009</b> Company Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L35	0
(3)	<b>2008</b> Company Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L35	0
(4)	<b>2008</b> Company Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L35	0
(5)	<b>2007</b> Company Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L34	0
(6)	<b>2007</b> Company Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L34	0
(7)	<b>2006</b> Company Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L34	0
(8)	<b>2006</b> Company Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L34	0
(9)	<b>2009</b> Group Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L35	0
(10)	<b>2009</b> Group Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L35	0
(11)	<b>2008</b> Group Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L35	0
(12)	<b>2008</b> Group Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L35	0
(13)	<b>2007</b> Group Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L34	0
(14)	<b>2007</b> Group Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L34	0
(15)	<b>2006</b> Group Gross Written Premium - Direct	Pg 8, PREMWRTN, Col 1, L34	0
(16)	<b>2006</b> Group Gross Written Premium - Assumed	Pg 8, PREMWRTN, Col 3, L34	0

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





# Property and Casualty Risk-Based Capital Forecasting Spreadsheet Instructions

The property and casualty RBC forecasting CD-Rom contains a spreadsheet that calculates risk-based capital using the same formula presented in the *2009 NAIC Property and Casualty Risk-Based Capital Report Including Overview & Instructions for Companies* and implemented in the 2009 property and casualty risk-based capital vendor software. (A hard copy of this booklet is mailed with the forecasting CD-Rom.)

These forecasting spreadsheets can be used to check RBC results throughout the year to get an early look at RBC results before the RBC vendor filing software may be available, or to evaluate “what-if” scenarios. Factors and formulas in the spreadsheet can be changed if the protection is disabled.

## **WARNING!**

**The Risk-Based Capital Forecasting Spreadsheet CANNOT be used to meet the year-end risk-based capital electronic filing requirement. Risk-based capital filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.**

### **User Requirements**

- A Windows version of Microsoft Excel 2003 (or compatible versions).
- 5 megabytes of hard disk space.
- A good understanding of spreadsheet software.

### **Installation**

To install the spreadsheet files, start Windows Explorer and go to the CD-Rom drive where the forecasting spreadsheet is located.

Click on the Forecast\_P&C\_2009.xls file. Select “Edit” and then “Copy.” Select the directory where you would like the file to be located and select “Edit” and then “Paste.”

### **About the File**

The spreadsheet Forecast\_P&C\_2009.xls was created in Microsoft Excel. The spreadsheet can be used with Microsoft Excel version 5.0 or higher. The spreadsheet includes menus for use in navigation between pages and for printing.

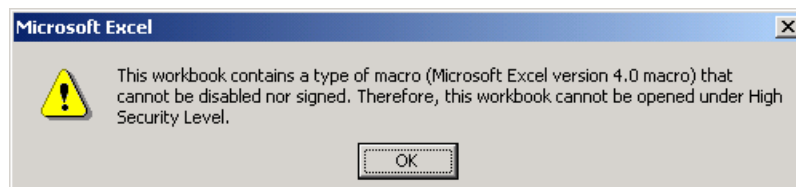
The RBC spreadsheet above follows the *2009 Property and Casualty Risk-Based Capital Report Including Overview and Instructions for Companies* formula pages. To help follow along with the formula pages in the overview and instructions, a separate worksheet has been included in the spreadsheet that corresponds to the same page in the booklet.

## Usage

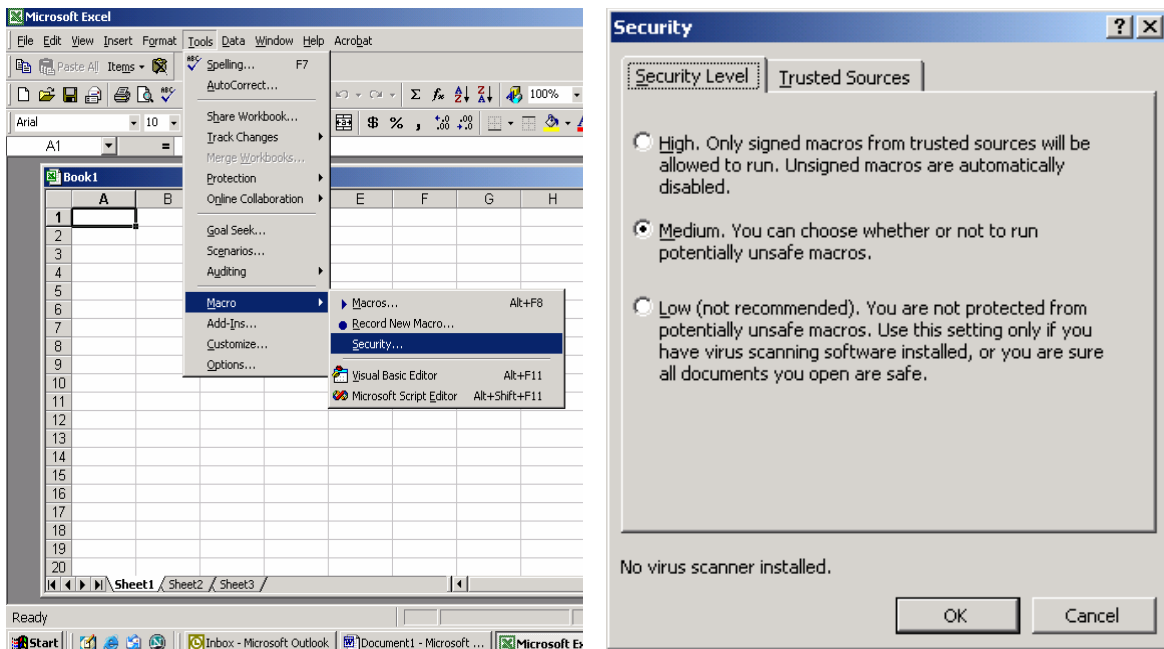
1. Start the spreadsheet program (i.e., in Windows, double click on the Excel icon).
2. Select the Open option from the File menu.
3. In the Open dialog box, select the directory in which the forecasting spreadsheet was copied.
4. Open the Forecast\_P&C\_2009.xls file.
5. Enter data as described in the following sections and examine the results.
6. Save any changes to the spreadsheets using the File menus Save command.

## Please Note

In certain versions of Excel, the user may receive the following message when the forecasting file is opened:



If this is the case, the user would need to change the Excel security level from "High" to "Medium" in order to open the file. Change the security by choosing "Tools," "Macro" and then "Security" in Excel. Select the "Medium" option and click on the "OK" button.



## Data Entry

The spreadsheets have been color-coded for easy use.

- Blue-shaded cells with a blue font are data elements that tie directly to the 2009 property and casualty annual statement. This data can be found in the company annual statement filing.
- Red-shaded cells with a black font are data elements that are not available directly from the annual statement (e.g., manual entry items). These items come from other company records as noted in the spreadsheet.
- White-shaded cells with a black font are data elements calculated automatically by the spreadsheet. These cells are protected and cannot be modified without turning off the protection.
- Yellow-shaded cells are data elements that must be entered using a separate input worksheet. Clicking on the cell will automatically take the user to the input worksheet. Data input into the separate worksheet will feed automatically to the main page.

## What-If Scenarios

One of the unique features of the forecasting spreadsheet is its ability to perform what-if calculations. Since the formula is implemented as spreadsheet cells, the user is able to adjust the formula to see what effect such adjustments will have. For example, it is possible to see what impact an NAIC change in the factor for unaffiliated common stock would have, simply by changing the factor in the spreadsheet cell and then viewing the results.

In order for the user to perform what-if calculations, the user must turn off the cell protections. Use the Help menu on the software to find instructions for protecting and unprotecting the spreadsheet. The Excel file also has buttons at the bottom of the menu for protecting and unprotecting all worksheets. NOTE: No passwords were used to protect the spreadsheets. If the user is prompted by the software for a password, ignore the password prompt and select "OK."

It is strongly recommended, however, that a BACK-UP COPY of the program be made before making formula or factor changes. If a back-up copy is not made, the actual RBC formula and the user's entered data will be lost.

## Saving and Exiting

To exit the program, simply choose the Exit option from the File menu. The spreadsheet program will prompt to save any files that have been changed.

- Answer "yes" to save any changes, such as data input or formula changes.
- Answer "no" if saving is not desired. Warning: This will ignore any and all other changes.

## Printing

A print menu was added to aid in printing for Excel users. Click on each box next to the page name for the individual pages that are desired to be printed. Then select the button for "Print Selected Pages." Select the "Reset" button any time it is desired to have all buttons deselected. Individual boxes can also be deselected by clicking on them.

Printing all pages at once may possibly overload the printer depending on the amount of memory available to the printer.

### **RBC Forecasting Tips**

1. Make sure the CD-Rom is retained so a back-up copy of the Excel file is available. The NAIC will not replace the CD-Rom unless it was damaged during shipping or is otherwise defective.
2. Gather information required for the affiliated investments section before beginning. In some instances, information will need to be gathered from the various affiliates themselves.
3. Keep a copy of the NAIC Annual Statement Blank and Annual Statement Instructions nearby and refer to them as needed.
4. Keep the copy of the *Overview & Instructions* at the computer to be used as a reference while filling out the spreadsheet. The spreadsheet follows the *Overview & Instructions* formula pages exactly.
5. Make a list of questions while filling out the spreadsheet. Then call the NAIC staff once, saving both parties time.
6. When leaving voicemail messages, make the question as specific and detailed as possible. We will then be able to call back with the answer, saving time spent on the phone. Please leave a phone number and fax number and we will get back with an answer as soon as possible.

### **Questions and Support**

If problems are encountered, please refer to the PRBC *Overview & Instructions* booklet and/or the Forecasting Spreadsheet Instructions first. However, if there is still a question, call the NAIC.

For questions pertaining to annual statement references, insurance accounting questions, or formula questions, contact Eva Yeung.

For computer-usage related questions (loading the product, etc.), call the NAIC Help Desk.

### **Important Contact Information**

- Formula questions: Eva Yeung (816) 783-8407; e-mail: [eyeung@naic.org](mailto:eyeung@naic.org)
- Computer questions: NAIC Help Desk (816) 783-8500; e-mail: [Help@naic.org](mailto:Help@naic.org)
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