

Risk Based Capital – Update to Underwriting Risk Experience Fluctuation Risk

The NAIC Capital Adequacy Task Force has updated the Underwriting Risk – Experience Fluctuation Risk factors for Comprehensive Medical, Medicare Supplement, Dental and Vision ([2021-04-CA](#)). While this update impacts all RBC Blanks and Instructions, the information below will be specific to Life and Fraternal. These changes will be applicable to year-end 2021 reporting.

The first update is to incorporate investment income into Columns 1-3 on LR020 lines 10.1 and 10.2, which resulted in the following changes to the factors:

Low Tier (First \$0 - \$3 Million of Premium)

<u>Business Type</u>	<u>2021 Factor</u>	<u>2020 Factor</u>
Comprehensive Medical	.1493	.15
Medicare Supplement	.1043	.105
Dental	.1195	.120

Middle Tier (Next \$3 - \$25 Million of Premium)

<u>Business Type</u>	<u>2021 Factor</u>	<u>2020 Factor</u>
Comprehensive Medical	.1493	.15
Medicare Supplement	.0663	.067
Dental	.0755	.076

High Tier (Over \$25 Million of Premium)

<u>Business Type</u>	<u>2021 Factor</u>	<u>2020 Factor</u>
Comprehensive Medical	.0893	.09
Medicare Supplement	.0663	.067
Dental	.0755	.076

Additionally, line (9) Underwriting Risk Claims Ratio and line (10.3) Composite Underwriting Risk Factor (incorporates lines 10.1 and 10.2) were expanded to 4 decimal places from 3. This expansion was also made to line 12 Managed Care Discount Factor but since that value is pulled directly from LR022, it will not change the value for 2021.

It is anticipated that these changes will result in minor reductions to carriers' RBC that offer these lines of business. However, carriers should assess their own business to determine if it will have a favorable impact on RBC.