Please send comments to Reggie Mazyck at [RMazyck@NAIC.ORG](mailto:RMazyck@NAIC.ORG) by close of business October 19, 2021

This is the VM-22 (A) Subgroup exposure of the Academy Annuity Reserves and Capital Working Group (ARCWG) Proposed Fixed Annuity Framework. The framework is accessible via the link below.

[ARCWG\_VM\_22\_Framework\_Draft\_Proposal\_July\_2021\_Combined](https://www.actuary.org/sites/default/files/2021-07/ARCWG_VM_22_Draft_Proposal_July_2021_Combined.pdf)

Separately, the Subgroup is exposing the attached concept of Reserving Categories, and includes two alternative approaches for defining the two Reserving Categories. The Subgroup especially welcomes comments on those, in addition to other elements mentioned below.

VM-22 Exposure Comments and Priorities

* Standard Projection Amount language analogous to that in VM-21 is expected to be added to the next exposure, as either a disclosure item or floor.
* The Academy draft does not incorporate APFs adopted for the 2021 and 2022 Valuation Manuals.
* Comments on the current draft are especially welcome with respect to:
  + Reserving Categories :
    - Are more or less categories preferable? If more, how should they be determined?
    - Definition language including:
      * Are #8 and #9 in Option 1 too broad or narrow?
      * Is valuation date or issue date preferable in Option 2?
  + Model Segments (Section 3.E)
    - Conceptual
    - Language
  + Allocation (Section 12)
    - Preference between Option 1 (VM-21 Approach) and Option 2 (Actuarial Present Value Approach)
  + VM-21 vs. VM-22 Distinction (VM Section II edits)
    - Wording for conditions regarding whether to treat index-linked and modified guaranteed annuities as VM-21 or VM-22
  + Exclusion Test
    - Deterministic Certification Option (Section 7.E)
    - Keeping longevity shocks as part of the stochastic exclusion test (current wording) or make a separate test from interest rate/equity shocks in the stochastic exclusion test (alternative)

**RESERVING CATEGORY DEFINITIONS**

**OPTION 1 (**redline)**:**

The Term “Payout Annuity Reserving Category” includes the following categories of contracts, certificates and contract features, whether group or individual, including both life contingent and term certain only contracts, directly written or assumed through reinsurance, with the exception of benefits provided by variable annuities:

1. Immediate annuity contracts;
2. Deferred income annuity contracts;
3. Structured settlements in payout or deferred status;
4. Fixed income payment streams resulting from the exercise of settlement options or annuitizations of host contracts issued;
5. Supplementary contracts, excluding contracts with no scheduled payments (such as retained asset accounts and settlements at interest);
6. Fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts, once the contract funds are exhausted;
7. Certificates, emanating from non- variable group annuity contracts specified in Model #820, Section 5.C.2, purchased for the purpose of providing certificate holders fixed income payment streams upon their retirement;
8. Pension Risk Transfer Annuities; and
9. Longevity Reinsurance.

**RESERVING CATEGORY DEFINITIONS**

**OPTION 1** (clean):

The Term “Payout Annuity Reserving Category” includes the following categories of contracts, certificates and contract features, whether group or individual, including both life contingent and term certain only contracts, directly written or assumed through reinsurance, with the exception of benefits provided by variable annuities:

1. Immediate annuity contracts;
2. Deferred income annuity contracts;
3. Structured settlements in payout or deferred status;
4. Fixed income payment streams resulting from the exercise of settlement options or annuitizations of host contracts issued;
5. Supplementary contracts, excluding contracts with no scheduled payments (such as retained asset accounts and settlements at interest);
6. Fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts, once the contract funds are exhausted;
7. Certificates, emanating from non- variable group annuity contracts specified in Model #820, Section 5.C.2, purchased for the purpose of providing certificate holders fixed income payment streams upon their retirement;
8. Pension Risk Transfer Annuities; and
9. Longevity Reinsurance.

**OPTION 2:**

* The Accumulation Reserving Category contains contracts with supporting assets such that there is greater disintermediation risk and other risks associated with policyholder behavior, than reinvestment and longevity risks as of the valuation date.
* The Payout Reserving Category contains contracts with supporting assets such that there is greater reinvestment and longevity risks, than disintermediation risk and other risks associated with policyholder behavior as of the valuation date.

Guidance Note

Reasonable grouping of contracts is allowed. The determination process shall not incorporate the effect on reserves of categorization decisions and shall be documented in the VM-31 Actuarial Report.