ACLI
Financial Security for Life

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

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Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2023-03 Parts 1 and 2

Dear Ms. Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on Parts 1 and 2 of APF 2023-03 which was exposed during the LATF session on February 2, 2023.

Regarding Part 1, the APF suggests that the expense allowance also be multiplied by the policy's SG funding ratio. In VM-20 this ratio is [ASG_{x+t}/$FFSG_{x+t}$]. For reference, Section 3.B defines what is meant by the terms ASG_{x+t} and $FFSG_{x+t}$. For shadow account policies which are minimally funded, this ratio is naturally low, and depending on policyholder behavior, could remain low for all policy years. For specified premium policies, the ratio grows from a low ratio at the first policy year to 1.00 at the end of the secondary guarantee period. Thus, the structure of the secondary guarantee and the underlying policyholder payment behavior influences how much of the amortized expense allowance is permitted to be recognized.

The [ASGx+t/FFSGx+t] ratio makes sense for the "NSPx_t" component of the VM-20 Section 3.B.5.c formula because the ratio reflects the degree to which the policy is closing in on a "paid up" secondary guarantee provision. However, we do not see this ratio as appropriate for calibrating how much of the expense allowance is recognized. After all, the expense allowance construct is intended as a proxy for industry-level acquisition costs, and those costs do not change based on policyholder behavior, nor do they change according to the structure of the secondary guarantee provision. The concept that the expense allowance is independent of policyholder behavior would further draw into question whether the application of the ratio to the expense allowance in Section 3.B.5.d (when the secondary guarantee is not in effect) calculation is appropriate. Removing this

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application of the ratio to the expense allowance, which we acknowledge is a deviation from CRVM, would bring both components of the NPR calculation into alignment on this concept.

As compared to company calculations to date (i.e., using VM-20's current expression of ULSG NPR) the changes proposed in APF 2023-03 Part 1 would have a significant impact on the NPR reserve calculation in early durations, with a decreasing effect over time. This is because the expense allowance deduction, when multiplied by the $[ASG_{x+t}/FFSG_{x+t}]$ ratio, would be significantly smaller in earlier durations, and as the expense allowance amortizes, the difference would get smaller over time regardless of the ratio.

It is unclear what the aggregate impact of this change would be to reserves, and a thorough analysis would require updates to valuation systems. Therefore, ACLI would recommend no change to VM-20 as proposed in Part 1 until these impacts can be determined.

Regarding Part 2, ACLI believes the requirement to floor each stochastic scenario at the cash surrender value (CSV) prior to calculating CTE70 could be problematic. For example, applying the CSV floor to each scenario would result in making the effect of the floor more difficult to predict, forecast, and manage (e.g., via hedging).

The VM-20 and VM-21 frameworks are different in several ways; for example, VM-20 has an NPR with a cash surrender value floor while VM-21 does not, and the VM-20 Deterministic Reserve also serves a different purpose than the Standard Projection Amount in VM-21. From a technical standpoint, it is not clear why additional flooring at the SR scenario level is appropriate and necessary for VM-20. Therefore, ACLI would recommend no change to VM-20 as proposed in Part 2.

Thank you once again for the consideration of our comments and we are looking forward to future discussions with regulators on this APF.

Sincerely,

Colin Masterson

cc: Scott O'Neal, NAIC