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April 18, 2023

Rachel Hemphill

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

Re: APF 2023-05

Dear Ms. Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on APF 2023-05 (VM-21 Index Hedging) which was exposed by LATF during the Spring National Meeting in Louisville. ACLI supports the exposure with the changes proposed by LATF and the following one non-substantive change:

We observed small grammatical error in Section VM-21 4.A.4.b.ii.b and suggest striking “no” as a correction:

“...a second CTE70 (“adjusted”) which shall use only hedge assets held by the company on the valuation date and only ~~no~~ future hedge purchases associated solely with indexed interest credited.”

Regarding the 1% minimum suggested in the APF, we have a few points reflecting why we believe this is more appropriate than the current 5% minimum for VA hedging:

- Index hedging is tighter than dynamic VA hedging.
- The percentage used must be supported by company experience and would be subject to ongoing regulatory scrutiny. The 1% is not a safe harbor, but rather a floor.
- The higher the percentage, the more companies doing the tightest hedging would be penalized.
- We also do not think a survey of company experience would be fruitful because it would be aggregating apples and oranges. For example, some companies may employ a static hedging strategy, while others may use a dynamic strategy, and still others may hedge only certain Greeks, e.g., delta. The assumption should be based on the company’s specific strategy, not on an aggregation of different company strategies.

**American Council of Life Insurers** | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.

Thank you once again for considering our comments and we look forward to future discussions with LATF to develop this APF.

Sincerely,

 *B. Banerji* Colin Masterson

cc: Scott O'Neal, NAIC