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

Re: APF 2023-12 (VM-30 Equity Return Volatility)

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on APF 2023-12, which aims to clarify expectations on reflection of equity return volatility in VM-30 cash-flow testing.

We agree that the equity return volatility should be reflected in cash flow testing. We believe that Appointed Actuaries are best suited to determine the method to appropriately reflect asset-risk in cash-flow testing and thus want to ensure that the language in VM-30 is not overly prescriptive.

Therefore, we propose the following clarifications to subsection 3.B.7:

7. When the form of asset adequacy analysis is cash-flow testing, the actuary should analyze how the volatility of investment returns ~~assumptions~~ for equity-like instruments may affect the asset adequacy analysis results under ~~which may be expected in~~ moderately adverse conditions and shall not solely project the anticipated long-term average return (e.g., a single level assumption set to the long-term average) ~~but account for the volatility of such returns~~.

    a. ~~To accomplish the accounting for volatility, one or more of the following approaches may be employed, as appropriate~~ The following are examples of approaches that may be used to analyze the volatility of such returns~~:~~

i. Stochastic modeling for equity returns, with accompanying analysis of risk metrics.

ii. As relevant to capture the risk, including up, down, and/or volatile equity return scenarios for each given set of interest rate paths.

iii. Projecting one or more market drops, taking into consideration future points at which cash-flow testing results could be vulnerable to market downturns.

iv. Reflecting a level return assumption set equal to a tail risk metric, for example, setting investment returns to the average of the worst 30% of future scenarios, i.e., CTE70.

b. A qualitative description of why the equity return scenario used in asset adequacy analysis is moderately adverse in light of the company's portfolio should be provided.

ACLI previously commented on the definition of "equity-like instrument" and are appreciative of its inclusion in the latest exposure. While there is now alignment between the AG 53 Instructions and the APF, there is a disconnect in that certain Schedule BA assets are fixed income in nature and are assigned NAIC RBC charges consistent with bond-like assets. We suggest the following modification to the second bullet:

- Any assets that are captured on Schedule A or Schedule BA of the annual statement excluding bonds that receive bond-like designations.

Thank you very much for considering our feedback and we look forward to discussion.

Sincerely,

Colin Masterson

cc: Scott O'Neal, NAIC