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Ben Slutsker
Chair, NAIC Valuation Manual (VM)-22 (A) Subgroup (Subgroup)

Re: Academy Payout Exclusion Proposal

Dear Mr. Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the Academy Payout Exclusion Proposal that was exposed by the Subgroup in December.

ACLI supports the direction of the proposal put forth by the Academy Annuity Reserves & Capital Work Group. We have several areas for comment:

<u>Section 7.A.1.d.i.f</u>
This item lists Term Certain Payout Annuities as a possible group able to qualify for the exemption. Should non-life contingent annuities found in Exhibit 7 (Deposit Type Contracts) under the column labeled "Annuities Certain", as well as the column labeled "Supplementary Contracts" be a part of the Payout Annuity Exemption Reserves definition? These are separate from the life-contingent liabilities found in the Analysis of Increase in Reserves, Individual Annuities and Group Annuities pages.

<u>Sections 7.A.1.d.ii Sections 7.A.1.d.v.i.b</u>
This criterion states that neither PRT nor longevity reinsurance agreement is allowed as a category possible for exemption. Certain longevity reinsurance agreements contain only contracts that would meet the remaining criteria (that is, are consistent with other "vanilla" payout annuities); a prohibition on such arrangements seems to violate consistent treatment for similar products. Further, Payout Annuity Exemption Reserves include both longevity and PRT arrangements despite not being eligible for the exclusion; it would be appropriate to remove these from the reserves contributing to the exemption. Otherwise, a company would not be able to exempt business that would otherwise meet the criteria.

Sections 7.A.1.d.iii-iv

Several of our members expressed concern that Section 7.A.1.d.iii and Section 7.A.1.d.iv of the exposure may preclude application to products expected to be in scope (e.g., annuities with a fixed cost of living adjustment, 50% joint and survivor annuities, non-elective changes to contract). Such product cash flows are not impacted by changes in interest rates or current economic conditions, which appears to be the intent of the exclusion. We are suggesting two possible approaches to incorporate these edits below.

Additionally, we have questions about existing Section 7.A.1.d.iii. Given our proposed edits, is this criterion needed? If retained, how was the 5% developed and how does it compare to the 15% in guideline IX? Perhaps a drafting note could be included to explain the differences.

[Option 1 (combining both romanettes)]

iii. Future scheduled payout benefit amounts ~~are either level or stay within 5% of the initial payout benefit amount over time~~ and policyholder options are not sensitive or have an immaterial level of sensitivity to changes in interest rates or economic conditions;

~~iv. There is either no or an immaterial level of policyholder options permitted within the contracts;~~

[Option 2 (retain both romanettes)]

iii. Future scheduled payout benefit amounts meet one of the following conditions:

a) Amounts are level;
b) Amounts follow specified adjustments as outlined in the contract; or
c) Amounts stay within 5% of the initial payout benefit amount over time;

iv. There is either no or an immaterial level of policyholder options permitted within the contracts that are sensitive to changes in interest rates or economic conditions;

Thank you for the consideration of our comments and ACLI is looking forward to continued engagement with regulators as we move into 2023, especially regarding issues and projects covered within the scope of the VM-22 Subgroup.

B Bonfieli Colin Masterson

cc: Scott O'Neal, NAIC