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

Re: October Re-Exposure of VM-22

Dear Mr. Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the latest draft of VM-22 that was exposed by the NAIC Valuation Manual (VM)-22 (A) Subgroup (Subgroup) in October 2022.

ACLI appreciates all the hard work of the Subgroup in the development of this draft. We believe this second exposure is taking shape for future field testing and towards final adoption of this principles-based framework.

Our comments are noted below by section. As a general comment, we believe all hedging requirements should be combined into one section as noted in the redline. We have several incorrect references noted in the redline not noted below, as well as questions if references are correct. There are numbering issues throughout the document that should be addressed for the next draft.

Valuation Manual Section II. Reserve Requirements

- Requirements in Subsection 3 Deposit-Type Contracts also need to be updated since some of those contracts are in scope of VM-22.
- Guidance Note below Subsection 2.D: Guidance Note appears to apply to 2.D, suggest putting the text directly in 2.D. Also propose similar change for VM-21.
- Subsection 2.E.4 - Contracts and Certificates Excluded from the Annuity PBR Exemption: We believe this should only apply to deferred status but not claim status.

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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.

- Subsection 2.E. Drafting note: Some of our members have expressed concerns over the VM-22 draft's proposed exemption amount being set too low at \$0.5 billion in reserves. The Draft Note in the exposure indicated the original proposal of \$3 billion for a company and \$6 billion for a group was revised downward, but these higher levels may cover the vast majority of annuity reserves held (not only those subject to VM-22) and would be more appropriate. The Life PBR Exemption uses a \$300/600 million life premium limit; creating a parallel for annuities looking at reserves would inherently be greater than the proposed \$0.5/1.0 billion limits. We would request that the NAIC consider researching and consider implementing "equivalency" between life premiums and annuity reserves. Our hope is that exemption levels will be set so that small annuity writers are not included within the scope of PBR requirements.
- Subsection 5.F Drafting note: Would favor language "are generally expected to follow" in the section.
- Subsection 6.D: Unclear why this change was made, recommend striking ", or D".
- Subsection 6.D.2 and 6.D.3: Unclear why "after issuance" was added; provide clarification or recommend deleting.
- Subsection 6.F: Second paragraph would be better as a standalone item G. Suggest changing "may" with "should" for clarity.

VM-01: Definitions for Terms in Requirements

- Deferred Income Annuity: Consider adding "and/or annuitant" in addition to "contract holder" reference.
- Longevity Reinsurance: Suggest removing "over the expected lifetime of benefits paid to the specified annuitants" to allow for flexibility in how these transactions could be arranged.
- Structured Settlement Contracts/Term Certain Payout Annuity: Clarify the type of contracts (such as annuity contracts or deposit type contracts).

Section 1: Background

- Section 1.A: Date should align with effective date (so 1/1/2024 should be 1/1/2025).
- Section 1.B. Principle 5: Edited for clarity.
- Section 1.C.2 Drafting note: Support eliminating references to separate accounts in VM-22.

Section 2: Scope and Effective Date

- Section 2.A: Need to include VM Section III Subsection Deposit Type Contracts.

Section 3: Reserve Methodology

- Section 3.A. Guidance Note: Suggest incorporating into 3.A.
- Section 3.D.1: Be specific on what "these requirements" refers to.
- Section 3.E: Is Section 4 the right reference? Section 3.I seems more accurate.
- Section 3.E.3 (sic): Further clarification is needed on what is meant by this statement.
- Section 3.F: Consistent with our comments in our November 19, 2021, letter, we are concerned with the need for prescribed reserving categories because we believe the aggregation of contracts for the SR and DR should be principle-based and align with the pricing, operations, and investment management of the assets and liabilities.
- Section 3.F.a.iv and 3.F.a.vi: References to "Host Contracts" and "deferred Annuity Contracts" may cause confusion. VM-21 technically covers all benefit streams emanating

from Variable Annuity Contracts. ACLI would like to work with regulators to update the wording in both VM-21 and VM- 22 to codify current accepted practices (such as making it clear that projection of annuitizations and benefits (after AV = 0) should continue to be principle-based and reflect how the business is managed).

- Section 3.F.a.v: Need definition of “Supplementary Contract.”
- Section 3.F.a Drafting Note: Permitting optionality to align categorization with how business is managed is conceptually appropriate. From a conceptual (principle-based) and operational perspective, living benefit contracts with depleted fund values should be included in payout or accumulation categories based on how the business is managed.
- Section 3.F.c: Is this referring to section II of VM-22, or is it referring to VM Section II, Subsection 2 "Annuity Products," Paragraph D? The wording should be made clearer.
- Section 3.F.4: Wording unclear in start of sentence and should be clarified.
- Section 3.G.2: Is this statement only applicable if it passes the SET? Please clarify.
- Section 3.H: Consider if additional references than to DR are needed e.g., exclusion test.
- Section 3.I.2: Need to clarify “this group.”
- Section 3.I.3: Incorrect Reference to Section 9.

Section 4: Determination of SR

- Consistent with our comments in our August 19, 2022, letter, we do not support the use of a k-factor to modify the premiums used in the longevity reinsurance reserve calculation because the premiums for these policies are not assumptions that vary. We believe an alternative, principle-based solution with prudent margins could better address regulators’ concerns and wish to work with regulators to craft a better solution. If the k-factor approach is retained, the calculation methodology should be as principle-based as possible (e.g., reflect emerging experience and how blocks of business are managed and aggregated consistent with company practices).
- Section 4.A.1.a: References to “contract holder” and “contract inception” seem to imply directly written business. Suggest replacing “contract holder” with “contract holder or the ceding company in the case of reinsurance” and replacing “contract inception” with “contract inception or reinsurance effective date in the case of reinsurance.”
- Section 4.A.1.a.ii: Premiums are usually pre-determined. It is not clear how this paragraph is applicable.
- Section 4.A.1.b: Second paragraph feels like it should be its own subsection.
- Section 4.A.1.f: Hedging is referenced in both Section 4 and Section 9. Confirm that reference is sufficient.
- Section 4.A.1.h Guidance Note: If we make the 2nd paragraph of 4.A.1.b a separate reference this reference needs to be updated. See comment above
- Section 4.A.4: Hedge Modelling, whether index crediting or non-index crediting, should all be consolidated into one section in VM-22. This will help regulators and practitioners.
- Section 4.A.4.b.i.b: Doesn’t 4.A.4.a.ii say the same thing as the previous sentence of this paragraph? It is confusing to have this reference to hedges “not for indexed crediting” referenced in this paragraph.
- Section 4.A.4.b.i.c: For Factor determination, the values for X and Y selected for field testing and analysis should be appropriately documented including governance.
- Section 4.A.4.b.ii.d: Consider refining this to reference VM-22 Section 2 Scope.
- Section 4.A.5: Is VM-22 references back to VM-21. Prefer to spell out the requirements to avoid companies needing to review multiple VM chapters.
- Section 4.A.6: VM-21 has “no materially greater reserve value would result from longer projection periods” ; The VM-21 language should be used for VM-22.

- Section 4.F.1: Consider using different terminology than “fee income” as this is carryover from VM-21 and could cause confusion for fixed annuities

Section 5: Reinsurance

- Section 5 A.2.b.i Guidance Note: Consider clarifying this guidance note for Annuities.
- Section 5.A.2.e.ii Guidance Note: Note should be removed or clarified.
- Section 5.A.3: Are there some words missing? Seems to be carried over from VM-21 reference to “Alternative Methodology”.

Section 9: Modeling Hedges under a Non-Index Credit Future Hedging Strategy

- Section 9.A.1: Is this meant to read as "this section only pertains"?
- Section 9.C.7: There appears to be an incorrectly placed “no” in the third sentence and should be removed (“For a material change in strategy, with ~~no~~ less than 3 months of history, E should be 1.0”).

Section 10: Guidance and Requirements for Setting Contract Holder Behavior Prudent Estimate Assumptions

- Section 10.A: This should say "and by Section 12" to make it clear that Principle 3 refers only to section 1.B.
- Section 10.A.7.a: Should say "product was purchased".
- Section 10.A.7.b: Should say "option is".
- Section 10.C and Section 12: Sections should be updated to reflect materiality language consistent with language adopted in APF 2021-11, if applicable. The list of assumptions should be updated to better reflect the material assumptions for fixed annuities; for example, remove account transfers and future deposits.
- Section 10.D.5: Should be a callout here for credibility and/or materiality. Possibly covered by the ‘may’ in #4 above.
- Section 10.D.7: Delete "empirical" for the sake of clarity.

Thank you all once again and ACLI looks forward to continuing our engagement with regulators on this proposal. We have also provided you with a marked-up version of the VM-22 draft containing all the comments listed above.



Colin Masterson

cc: Scott O’Neal, NAIC