ACLI
Financial Security for Life

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Peter Weber
Chair, NAIC Variable Annuities Capital and Reserve (E/A) Subgroup
Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force

Re: APF 2024-07 (VM-21 SPA Updates)

Dear Chairs Weber and Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on APF 2024-07 which was exposed for public comment by the NAIC Variable Annuities Capital and Reserve (E/A) Subgroup. Along with the proposed Valuation Manual (VM) changes to update VM-21 Standard Projection Amount (SPA) assumptions, the Subgroup also asked interested parties to contemplate the question of whether more expedient changes to only the mortality and expense assumptions would be desirable (potentially for the 2025 VM) or if the entire package (including updated surrender assumptions) should be considered for adoption as it is ready.

Regarding the question posed by regulators, ACLI supports the deferral of any updates to mortality, expense, and surrender assumptions until the entire package is ready to be adopted at once. Updates to mortality will have a large impact on the SPA calculation and will likely require model changes as opposed to the more straightforward expense and lapse updates. Given the greater effort and likely impact of the mortality change, we recommend deferring updates.

Within the APF itself, we have the following feedback:

- We note that all current standard projection assumptions are fully prescribed, creating a benchmark used to identify outliers in accordance with the original desire for the standard projection. The proposal for the shock lapse on index-linked variable annuities with no guaranteed living benefits moves away from this approach by incorporating the company prudent estimate lapse rate, which would create the first standard projection assumption with the potential to vary by company. We recommend maintaining consistency with the

current approach for prescribed assumptions and defining a fixed lapse rate without reference to company assumptions.
- Section 6.C.6.f. proposes setting the shock lapse rate to a minimum of 60%. We recommend lowering the minimum rate to 40% as this weighs too heavily on recent history. While many companies likely experience shock lapse rates around this level in very recent years, prior to the recent interest rate increases assumed shock lapse rates were well below this level. A lower starting baseline would make more sense across a broader swath of economic environments.
- In Section 6.C.6.f (i) under ILVA lapse assumption, the proposed lapse assumption of 4% is very high for contracts within the CDSC period. The industry data we have observed showed lapse rates of less than 2%. What industry study was used and how was this assumption developed?
- Based on the Subgroup's discussion preceding the exposure of this APF, it is our understanding that the additional 60% factor for GMWB and hybrid GMIB taking withdrawals that is applied to the tabular surrender rates was not considered when suggesting the updates to the table. As a result, we believe the proposed table updates would result in surrender rates that are too low and suggest additional analysis with this factor in mind to determine if any table updates are necessary.

Thank you once again for the consideration of our comments and we look forward to future discussions on this matter during a future NAIC meeting.

Sincerely,

Colin Masterson

cc: Scott O'Neal, NAIC