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

Re: The Academy of Actuaries (Academy) Principles for Recognition of Illiquidity Premium and Amendment Proposal Form (APF) 2026-01

Dear Chair Hemphill:

The American Council of Life Insurers appreciates the opportunity to provide feedback on two items that were exposed for public comment following the 2026 NAIC Spring National Meeting in San Diego, California:

- 1) Proposed Academy Principles for applying an Illiquidity Spread in PBR calculations; and
- 2) APF 2026-01, a proposal that would enable an insurer to establish reserves for Pension Risk Transfer Annuities (which are one of the more significant blocks subject to asset-intensive reinsurance) based on a calculation that considers the illiquidity of the business and other unique factors

Given the dependencies between these two proposals, ACLI found it best to provide our commentary in one letter.

The Academy's draft Principles cover criteria for permitting an illiquidity premium in the Principle-Based Reserving (PBR) framework (notably Principles 1, 3, and part of 6) and considerations for the illiquidity premium's structure and magnitude. ACLI recommends that the initial focus be on fully developing the criteria for allowing an illiquidity premium before addressing its structure or size. In particular, we suggest more robust Asset-Liability Management (ALM) criteria, in part because the life insurance industry's ALM practices are key to capturing illiquidity premiums, and in part because the predictability of liability cash flows alone does not guarantee alignment with cash flows from illiquid assets. The recognition of any illiquidity premium should be grounded in a demonstrated alignment between asset cash flows and liability obligations. This includes both timing and liquidity characteristics. Where liabilities exhibit limited surrender risk and predictable cash flows, and are supported by assets with similar liquidity profiles, the framework should allow for recognition of the associated illiquidity premium. A requirement to show that any ALM mismatches are immaterial could be part of the solution.

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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 275 member companies represent 94 percent of industry assets in the United States.

Further, with respect to APF 2026-01, we support the Academy's position that recognition of illiquidity premium should be based on liability characteristics (e.g., predictability, liquidity profile) and supporting asset portfolios, rather than being limited to specific product categories such as PRT. The proposal recognizes that the reinvestment guardrail, by anchoring spread assumptions to public market benchmarks, fails to account for the illiquidity premium present in asset portfolios supporting well-matched, long-duration liabilities. Many non-PRT liabilities (such as structured settlements and payout annuities) exhibit comparable levels of cash flow predictability and liquidity protection. A product-based approach risks creating inconsistent outcomes and incentivizing structural reclassification rather than improving underlying risk alignment. Additionally, limiting the recognition of illiquidity premium to specific product categories may fail to address differences in investment practices across entities, including reinsurers. A more principles-based framework would improve transparency and reduce incentives for structural solutions that do not improve underlying risk management.

Once criteria are established for the illiquidity premium, rather than prescribing a fixed cap of 50 bps, we recommend that any limitation on the illiquidity premium be principles-based, supported by data, and tied to moderately adverse assumptions as described by the Academy. A fixed cap risks being either excessive or insufficient depending on market conditions.

Like illiquidity, principles regarding reinvestment guardrail credit quality mix should be developed. We understand that PRT has been put forward as an example of a product line that requires greater scale and sophistication of investment operations. Characterizing these differences in terms of demonstrated differences in investment opportunities (including access to private markets) and capabilities rather than product line focus would be in line with a broader movement towards principle-based revisions. A principle-based framework should allow these differences to be reflected, subject to appropriate documentation and governance under VM-31, which provides an appropriate mechanism to ensure discipline through required documentation, justification of assumptions, and governance. To the extent VM-31 documentation is intended to capture the full basis for any illiquidity premium recognized, the required disclosures should address all components of that premium and not solely the spread differential relative to public benchmarks. Expanding reliance on VM-31 would allow greater flexibility in modeling while maintaining regulatory oversight.

Additionally, the illiquidity premium concept should apply to both starting and reinvestment assets. Companies may not use their own prudent estimate spread and default assumptions on the starting assets, given they are subject to the VM-20 Section 9.F prescribed defaults and spread cap requirements. Because single premium products, such as PRT, receive those premiums up front it is important the illiquidity premium be applied to those starting assets as well.

ACLI presents the following commentary as broken down by section of the APF:

VM-22 Section 3.F

Because Pension Risk Transfer (PRT) cannot be aggregated, ACLI believes references to 4.D.3 and 4.D.4 are more appropriate elsewhere. Accordingly, the APF should be amended as follows:

*4. The reserve may be determined in aggregate across various groups of contracts within each Reserving Category, or within the combined Accumulation and Payout reserving categories following Section 3.F.2, as a single model segment when determining the SR or DR, **except for** with the following **exception**:*

~~*Pension Risk Transfer Annuities utilize different spread, default, and investment strategy assumptions than other products as described in Sections 4.D.3 and 4.D.4. If aggregating Pension Risk Transfer Annuities with other products, then the Pension Risk Transfer Annuities which cannot be in the same model segment as other products.*~~

VM-22 Section 4.D.3.a.iv

Is the intent to allow for an additional 50bps beyond the Section 4.D.3 swap rates, or to allow something else? As worded, this suggests there is only the illiquidity premium of up to 50bps. As noted previously, a fixed 50bps cap is inconsistent with a principles-based approach, which should require that any illiquidity premium be determined on a net spread basis accounting for differences in default and investment expenses.

VM-22 Section 4.D.3.b

The phrase “for products other than Pension Risk Transfer Annuities” seems to suggest the above requirements do not apply to PRT, when only the b.i-iii are different. ACLI would suggest updating this accordingly if that was not the drafter’s intention.

VM-22 Section 4.D.3.b and Section 4.D.4

Consistent with our comment above regarding VM-20 spread cap limits, these sections should revert back to the previous language on existing assets.

General Editorial Note:

In both VM-22 Section 4.D.3 and Section 4.D.4, an additional illiquidity premium of “up to” the defined threshold (should one exist) should be the terminology used to be consistent with other references.

Thank you once again for the opportunity to present this feedback and we look forward to future discussions on this topic with LATF regulators, staff, and members of the Academy.

Sincerely,

  

cc: Scott O’Neal, NAIC