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

Re: February 2025 Chair Exposure for Remaining Decisions on Framework

Dear Chair Slutsker and Vice-Chair Lam:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide further feedback on the exposure questions which were released by the Subgroup last month having to do with several outstanding decisions that must be made regarding the new VM-22 framework. In line with the structure of the exposure itself, ACLI has the following comments:

4) Revisiting Framework Elements – Should any of the previously discussed items in the framework be revisited by the Subgroup? If so, please state such items, including edits and supporting rationale for any preferred changes to the latest draft.

ACLI has identified three items for additional consideration by the Subgroup: updating the deterministic certification option (DCO), Aggregation of Reserves, and addressing the Reserving Category when Account Values go to zero or negative.

1. DCO: ACLI supports a broad DCO, similar to the one that already exists in the VM-20 framework. There is uncertainty around the effectiveness of the SERT ratio tests given the new generator, and the risk of certain products switching between passing and failing between periods, which would create challenges for modeling as well from a capital management perspective. We support reflection of a DCO in the next exposure of VM-22.

2. Aggregation of Reserves: We appreciate the concerns raised by regulators during the original straw vote on aggregation. We also recognize the introduction of the Longevity Risk Transfer category, which has a unique floor, complicates any potential aggregation. We

request the Subgroup revisit consideration around aggregation. We are proposing limitations in which the Payout Annuity Reserving Category and Accumulation Reserving Category may be aggregated, specifically a) risk in both categories are managed in an integrated risk management process; b) assets supporting liabilities in both categories are in a single portfolio or portfolios with the same ALM strategy; and c) domestic regulator approval. Our proposed language is in Appendix A.

3. The Reserving Category when AV <= 0: As previously discussed with the Subgroup, we are proposing language to address the situations when account values go to zero or less. Our proposed language is consistent with the direct agreed to by the Subgroup, and can be found in Appendix B.

Thank you once again for the consideration of our comments and we look forward to continuing our work with the Subgroup and other interested parties as we move closer towards finalizing new VM-22 framework.

Sincerely,

Colin Masterson

cc: Amy Fitzpatrick, NAIC

Appendix A: Proposed VM-22 and VM-31 updates for Aggregation

VM-22 Section 3.F. Aggregation of Contracts for the DR and SR

F. Aggregation of Contracts for the DR and SR

1. Groups of contracts within different Reserving Categories may not be aggregated together in determining the SR or DR except as specified in Section 3.F.2. For the purposes of VM-22, Reserving Categories are classified as the following:

    a. The "Payout Annuity Reserving Category" includes the following categories of contracts, certificates and contract features, whether group or individual, including both life contingent and term certain only contracts, directly written or assumed through reinsurance, with the exception of benefits provided by variable annuities:

        i. Single Premium Immediate Annuity contracts;

        ii. Deferred Income Annuity contracts;

        iii. Structured Settlement Contracts in payout or deferred status;

        iv. Fixed income payment streams resulting from the exercise of settlement options or annuitizations of host contracts issued;

        v. Supplementary contracts, excluding contracts with no scheduled payments (such as retained asset accounts and settlements at interest);

        vi. Certificates, emanating from non- variable group annuity contracts specified in Model #820, Section 5.C.2, purchased for the purpose of providing certificate holders fixed income payment streams upon their retirement; and

        vii. Pension Risk Transfer Annuities.

    b. The term "Longevity Reinsurance Reserving Category" refers to include Longevity Reinsurance as defined under the definition provided in VM-01. of the Valuation Manual.

    c. The "Accumulation Reserving Category" includes all annuities within scope of VM-22 that are not in the "Payout Reserving Category" or "Longevity Reinsurance Reserving Category".

        i. Note this category shall include fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts, once the contract funds are exhausted

2. The Payout Annuity Reserving Category and Accumulation Reserving Category may be aggregated only if they meet the following criteria:

a. The company manages the risks of the contracts within both categories in an integrated risk management process.
b. The contracts within both categories are managed within a single portfolio, or portfolios with the same ALM strategy.
c. Demonstration of the above must be filed with the domiciliary commissioner prior to July 1 of that year.

~~2~~3. For the purposes of calculating stochastic reserves, the stochastic exclusion test, and determining the final VM-22 reserves, do not aggregate groups of contracts for which the company elects to use the Deterministic Certification Option in Section 7.E with any groups of contracts that do not use such option.

~~3~~4. The reserve may be determined in aggregate across various groups of contracts within each Reserving Category as a single model segment when determining the SR or DR.

~~4~~5. To the extent that aggregation results in more than one model segment, the aggregate reserve shall equal the sum of the SR amounts computed for each model segment and DR amounts computed for each model segment for which the company elects to use the Deterministic Certification Option in Section 7.E.

VM-31 Section F.16:

16. Additional Information – The following additional information:

a. Per-Contract Amounts – For groups of contracts valued under VM-21 requirements, a description of the basis for the allocation to per-contract amounts, in accordance with VM-21 Section 12.

b. VM-22 Aggregation – For situations where The Payout Annuity Reserving Category and Accumulation Reserving Category are being aggregated in accordance with VM-22 Section 3.F.2, documentation regarding:

i. Company integrated risk management process demonstrating product types within both categories are being managed consistently

ii. Information regarding the single portfolio being used for product types within both categories, or documentation that different portfolios follow the same ALM strategy.

~~b~~c. Sensitivity Tests – For each distinct product type for which margins were established:

i. List the specific sensitivity tests performed for each risk factor or combination of risk factors, other than those discussed in VM-21 Section 3.F.3.h.vi and Section 3.F.3.i.ii or VM-22 Section 3.F.3.h.vi and Section 3.F.3.i.ii.

ii. Indicate whether the reserve was calculated based on the anticipated experience assumptions or prudent estimate assumptions for all other risk factors while performing the tests.

iii. Provide the numerical results of the sensitivity tests for both reserves and capital.

iv. Explain how the results of sensitivity tests were used or considered in developing assumptions.

~~c~~d. Impact of Margin

i. Company can perform the impact of margin analysis using off-cycle data. The analysis can be done less frequently than annually unless there is change or update in the margins, but not less frequently than every three years.

ii. Impact of Margins for Each Risk Factor – The impact of margins on the DR or SR for each risk factor, or group of risk factors, that has a material impact on the DR or SR, determined by subtracting (i) from (ii), expressed in both dollar amounts and percentages. For the purposes of this analysis, calculate the CTE without requiring that the scenario reserve for any scenario be no less than the cash surrender value:

1. The CTE70 (best efforts) and DR, as outlined in VM-21, Section 9.C or VM-22, Section 9.C, but with the reserve calculated based on the anticipated experience assumption for the risk factor and prudent estimate assumptions for all other risk factors.

2. The CTE70 (best efforts) and DR, as outlined in VM-21, Section 9.C or VM-22, Section 9.C, for that group of contracts as reported.

3. For groups of contracts subject to C-3 Phase II RBC requirements, repeat the impact analysis using the same method on CTE98 levels.

iii. Aggregate Impact of Margins – The aggregate impact of all margins on the DR or SR for that group of contracts determined by subtracting (1) from (2), expressed in both dollar amounts and percentages. For the purposes of this analysis, calculate the CTE without requiring that the scenario reserve for any scenario be no less than the cash surrender value:

1. The CTE70 (best efforts) and DR, as outlined in VM-21, Section 9.C or VM-22, Section 9.C, for that group of contracts, but with the reserve calculated based on anticipated experience assumptions for all risk factors prior to the addition of any margins.

2. The CTE70 (best efforts) and DR, as outlined in VM-21, Section 9.C or VM-22,, Section 9.C for that group of contracts as reported.

3. For groups of contracts subject to C-3 Phase II RBC requirements, repeat the impact analysis using the same method on CTE98 levels.

iv. Impact of Implicit Margins – For the purposes of the disclosures required in Section 16.d.ii and Section 16.d.iii above:

1. If the company believes the method used to determine anticipated experience assumptions includes an implicit margin, the company can adjust the anticipated experience assumptions to remove this implicit margin for this reporting purpose only. If any such adjustment is made, the company shall document the rationale and method used to determine the anticipated experience assumption.

2. Since the company is not required to determine an anticipated experience

assumption or a prudent estimate assumption for risk factors that are prescribed (i.e., interest rates movements, equity performance, default costs, and net spreads on reinvestment assets), when determining the impact of margins, the prescribed assumption shall be deemed to be the prudent estimate assumption for the risk factor, and the company can elect to determine an anticipated experience assumption for the risk factor, based on the company's anticipated experience for the risk factor. If this is elected, the company shall document the rationale and method used to determine the anticipated experience assumption.

3. For groups of contracts subject to VM-22 requirements, this section maybe used to disclose the impact of aggregation across all non-variable annuity contracts in comparison to the required aggregation in VM-22 (i.e., limitations in VM-22 Section 3.F~~by Reserving Category~~).

Appendix B: Proposed VM-22 and VM-31 updates for AV < 0

VM 20 Section 3.F.1.c:

a. The "Accumulation Reserving Category" includes all annuities within scope of VM-22 that are not in the "Payout Reserving Category" or "Longevity Reinsurance Reserving Category".

ii. Note this category may include fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts, once the contract funds are exhausted. It may also include annuitizations and supplementary contracts issued from a host contract under the Accumulation Reserving Category.

Guidance Note: There is a diversity of practice on how supplementary contracts, annuitizations and contracts providing guaranteed living benefits after AV is exhausted are managed. To codify current acceptable practices, these contracts should only be valued under the Accumulation Reserving Category if that is consistent with the company's current practice e.g. the same assets are used to back host contracts and these contracts. Otherwise, those contracts would be included under Payout Reserving Category.

VM-31 Section F.1

F. Annuity Report – This subsection establishes the Annuity Report requirements for annuity contracts valued under VM-21 and VM-22.

The company shall include in the Annuity Report and in any sub-report thereof:

1. Liabilities – The following information regarding the liabilities included in the principle-based valuation under VM-21 and VM-22:

a. Product Descriptions – Description of key product features that impact risk, including mortality and expense (M&E) charges, death benefit guarantees, living benefit guarantees, index parameters, interest credited features, target investment spreads, and any premium or persistency bonuses, to the extent not discussed in Section 3.B.4.

b. Liability Data Source – Description of source(s) of liability data.

c. Alternative Methodology Scope – Identification of products subject to VM-21 whose reserve was determined using the Alternative Methodology, including description of their key product features (e.g., whether they contain no guarantee living or death benefits, or contain GMDBs only), total account value, and contract count.

d. Exclusion Testing Scope – Identification of products subject to VM-22 whose reserve was determined under VM-A, VM-C, and VM-V due to passing the exclusion test, including description of their key product features, total account value, and contract count.

e. Not subject to Exclusion Testing – Identification of products subject to VM-22 that satisfy the Payout Annuity exemption from the stochastic exclusion test described in VM-22 Section 7.A.1.d., including description of their key product features, total account value (if applicable) and contract count.

f. Annuitizations, Supplementary Contracts and Accumulation Contracts with Zero AV in Accumulation Reserving Category – Identification of annuitizations, supplementary contracts and other contracts on fixed income payment streams that are attributable to guaranteed living benefits with deferred annuity contracts, once the contract funds are exhausted. Include a description of original host contract and utilization rate of this benefit from the host contracts. Additional disclosures should be included that describe how these contracts are managed within their reserving category.