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Ben Slutsker

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

Elaine Lam

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

Re: The April 2025 Re-Exposure of the Draft VM-22 Framework

Dear Chair Slutsker and Vice Chair Lam,

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the recent re-exposure of the draft VM-22 Framework for non-variable/fixed annuities. ACLI would also like to express our gratitude for all of the work done on this project to date from all key stakeholders involved in this effort including NAIC staff, regulators, the American Academy of Actuaries, and EY.

Overall, ACLI is supportive of the VM-22 Framework and we welcome the adoption of this item soon at future sessions of the Subgroup and the Life Actuarial (A) Task Force. After a review of the exposure document, we have several observations that we believe should be addressed prior to adoption as outlined in the bullets and chart below:

General Commentary:

- Several of our members had questions related to the Aggregate Payouts/Accumulation “Reserving Category” and why it isn’t defined as a Reserving Category, as opposed to a combination of two separate categories. In accordance with the Subgroup’s decision on this issue, every reference to Reserving Category throughout the document should be checked to ensure that there are no conflicts with the new option as voted on by regulators.

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The American Council of Life Insurers 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 93 percent of industry assets in the United States.

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- There are three instances throughout the draft document where the reference “certain” is used which could cause confusion with “term certain.” In these instances (Pages 12, 32, and 192), we suggest using the word “some” rather than “certain” for clarity purposes.
 - Page 12 - *For all contracts encompassed by the Scope, these requirements constitute the Commissioners Annuity Reserve Valuation Method (CARVM) and, for ~~some certain~~ contracts and certificates, the Commissioners Reserve Valuation Method (CRVM).*
 - Page 32 - *For payouts specified at issue (such as single premium immediate annuities, deferred income annuities, and ~~some certain~~ structured settlements).*...
 - Page 192 - *These are the maximum interest rate assumption requirements to be used in the CARVM and for ~~some certain~~ contracts, ~~the~~ CRVM.*
 - Also, in the above, ACLI would recommend removing the “the” before CRVM.

Specific Commentary:

- VM Section II Subsection 2.C. –
 - We believe this section should be updated to clarify whether the issue date of a settlement option or the issue date of the contract from which a settlement originated should be used when determining whether settlement options are subject to VM-22. This question was raised during the 2024 field test (see the relevant excerpts from the VM-22 field test participant question log included following this bullet). The response provided during the field test indicated that VM-22 would be updated to clarify the requirement, and we believe clarification is still needed. ACLI’s preference is for the determination to be based on the issue date of the contract from which the settlement originated. This would avoid VM-22 applying to settlement options that were included in contracts issued long before VM-22 and PBR frameworks were contemplated.
 - This section also seems to suggest that for annuitizations, the reserve is VM-22 but with a prescribed valuation rate equal to that on the host contract. Under PBR, the discount rate would be prudent best estimate, so it would be helpful for the NAIC to perhaps provide an example of how a company would use a prescribed valuation rate.

#	Date	Category	Status	Details	Response
11	8/7/2024	VM-22 Scope	Closed	We have a settlement option where life insurance policy proceeds are deposited into an account with a minimum credited rate guaranteed and funds can be withdrawn at any time. Would VM-22 PBR apply to new issues?	Yes, these should be valued under VM-22.
11a	9/5/2024	VM-22 Scope	Closed	Follow up to Question 11: What date should be used in determining whether settlement options would be subject to VM-22? The issue date of the settlement option or the issue date of the contract from which the settlement originated?	Either approach is fine for the field test. Companies should disclose what they've done when submitting results. VM-22 will need to be updated to clarify the requirement.

- VM Section II Subsection 2. D.4.a. – “GMMB” is not defined; should this be “GMDB”? There is also no D.4.b, so ACLI suggests reordering the text to remove the “a”.
- VM Section II Subsection 2. D.1 and Section 2.D.5 – The references to 2.E.2, 2.E.4, and 2.E.1 should be 2.D.2, 2.D.4, and 2.D.1, respectively.
- VM Section II Subsection 2.E – The final paragraph should reference E1, E2, and E3 instead of F.
 - *“All annuity contracts that do not fall under EF.1, EF.2, or EF.3 in this subsection...”*
- VM Section II Subsection 2 also states that GICs, Synthetic GICs, Funding Agreements, and Stable Value Contracts should follow VM-A, VM-C and VM-V, which are the same VM requirements listed under Deposit Type Contracts. These are the same requirements listed in Subsection 3, Deposit Type Contracts, except Subsection 3 makes a reference to VM-22 as well. We suggest removing the VM-22 reference in Deposit Type Contracts. However, if the reference to VM-22 is required in the Deposit Type Contracts section, we suggest clarifying which Deposit Type Contracts are subject to VM-A, VM-C, and VM-V vs. VM-22.
- VM-01 Definitions - Throughout the document, Term Certain Annuity Payouts are generally grouped with other Payout Annuities with respect to how they should be reserved (i.e. following VM-22). However, the definition of Term Certain Annuity Payouts makes reference to being treated as Deposit Type Contracts. We suggest removing the reference to Deposit Type Contracts from the definition of Term Certain Annuity Payouts.
- VM-22 Section 3.F.2.c – When aggregating payouts and accumulation annuities, do companies need to file with the commissioner every year?
- VM-22 Section 3.F.3. – Subitem 3 is listed twice so ACLI suggests that regulators look into whether these are supposed to be separated into different numbers or grouped in 3. Regardless, ACLI would also suggest revising this language in line with the Subgroup’s decision to allow aggregation across two of the Reserving Categories.
- VM-22 Section 3.F.4 – Does this subsection also apply when companies aggregate payout and accumulation reserve categories resulting in more than one model segment? If so, it seems that the aggregate cash surrender value will never come into play because payout annuities do not have CSV.
- VM-22 Section 3.I.2. – Can regulators clarify whether this is meant to imply that annual experience studies are required for all experience assumptions?
- VM-22 Section 3.I.3 – Can regulators clarify the intent of this provision? It is unclear to industry why there is a need to re-iterate that one needs to follow the rest of the regulation in order to set Prudent Estimate assumptions.
- VM-22 Section 6.A. Guidance Note - Regarding the aggregation benefit described within the Guidance Note, industry notes that it is technically infeasible to calculate the

accumulated deficiency at the contract level. Since it's an ALM model, it would entail running every policy as a separate projection and current model infrastructure doesn't allow batch processing of this sort.

- VM-22 Section 7.C.1.b –
 - If the mortality improvement adjustments are intended to be additive, as opposed to multiplicative, then:
 - We believe consideration should be given to limiting the mortality improvement adjustments at older attained ages. A reasonable approach would be to grade the adjustments down to 0 between attained ages 80-105, similar to what is done with mortality improvement from Projection Scale G2.
 - It would be helpful to clarify whether mortality deterioration is intended to be modeled when applying the -1% adjustment.
 - The language in this section describes the different FMI applications as "1.0% future mortality improvement, +1.0% future mortality improvement, and no adjustments to future mortality improvement **added to anticipated experience mortality excluding margins**". The highlighted wording appears to suggest that FMI +/-1% be reflected on the baseline mortality, but we think there could be some additional clarity by revising this to say "...mortality (i.e., excluding margins)". However, if that is not the intent, then it would be helpful to incorporate clarifying language.
 - ACLI would also like to understand whether there is a broadly available illustrative example that illustrates what the guidance suggests. As an example for (a), is the guidance suggesting that if a company's FMI margin is 0.5%, that the company would test +/-1%, but if a company's margin is 1.25%, then it would use +/-1.25%?
- VM-22 Section 13 – Does this section need to be reviewed now that aggregation is allowed and, as a follow-up, does the allocation have to be done for each reserving category individually or in aggregate?
- VM-31 Editorial Comments –
 - Section 3.F.13.g – The header of the section should be underlined for internal consistency.
 - Section 3.F.16.g.j – This should be F.16.g.i.
- VM-31 Section 3.F.1.e – This section is no longer applicable and should be removed since the NAIC Subgroup decided to eliminate the Payout Annuity exemption from the stochastic exclusion test (VM-22 Section 7.A.1.d).
- VM-V – Can regulators clarify if the “prescribed portfolio credit quality distribution” listed in this section is supposed to match VM-22 reinvestment guardrail? It does not in the current draft.
- VM-V Section C.2. – Regarding which date to use for settlement options, can regulators clarify whether companies should use the date of the settlement and not the original issue date of the contract that the settlement came from? We believe this would be consistent with how industry currently determines the Statutory discount rate for annuitizations.

Thank you once again for the consideration of our comments and we look forward to additional discussion at a future Subgroup session.

Much appreciated,

 *B. Banerjee* *Colin Masterson*

cc: Amy Fitzpatrick, NAIC