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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: VM-22 Standard Project Amount (SPA) Draft

Dear Chair Slutsker and Vice-Chair Lam:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the SPA draft which was exposed by the NAIC VM-22 Subgroup back in June of 2024. We are appreciative of the progress made on the development of VM-22, and are appreciative of the efforts of regulators, NAIC staff, the Academy, and EY on the progress made on the development and field testing of this framework.

Regarding the Standard Projection Amount, ACLI members have reviewed the exposure and while we are mostly supportive of the draft, there are a number of clarifications and pieces of feedback we wish to see addressed prior to adoption by the Subgroup. These comments are laid out below and divided by specific section of the draft and topic of interest:

- GAPV Mortality:
    - Can regulators clarify whether the underlying mortality table and mortality adjustment factors are all based on the age nearest birthday or age last birthday?
    - Why is mortality guidance for PRT, SPIA, LRT, and SS in the GAPV section? Do we need to calculate the GAPV for these products?
    - Please clarify the durations definition for the SS mortality adjustment table (e.g., policy duration since issue, or duration from the valuation date).

- SPA Mortality:

- C.3.e (Group Annuities Mortality): How does a company determine the lower of the two mortality assumptions (highlighted below)? Does a company have to compute SPA using both assumptions to determine which is the lower assumption?

> Group annuities (except for those contracts owned or purchased by retirement plans, which are covered immediately below), international business, and contracts within the Longevity Reinsurance Reserving Category shall use the lower of the 1994 GAM Table with Projection Scale AA applied to the valuation date and the company's prudent estimate assumptions. The company prudent estimate assumptions for group annuities, international business, and contracts within the Longevity Reinsurance Reserving Category shall be developed separately from each other as appropriate.
>
> **Guidance Note:** For certain Group Annuity and Longevity Reinsurance contracts, a single contract may contain annuitants drawn from multiple underlying sub-populations with materially different mortality characteristics (e.g., due to differences in geography, plan composition, industry collar, socioeconomic profile, etc.). For contracts containing multiple underlying sub-populations, both i.) the determination of prudent estimate assumptions and ii.) the comparison between the mortality rates under the company's prudent estimate assumptions and under the prescribed table should be performed at a level of granularity that recognizes these material differences and that is at least as granular as the company uses for its own internal assumption development purposes (e.g., the level of granularity used when pricing the business or when periodically re-determining the company's internal mortality assumptions).
>
> For example, if a Longevity Reinsurance contract contains annuitants drawn from two underlying pension plans, one of which is predominantly blue collar and lower income and the other of which is predominantly white collar and higher income, the prudent estimate assumptions should be determined separately for each of the two plans (or at a greater level of granularity if consistent with company practice), and the comparison between the company's prudent estimate assumptions and the prescribed table should be performed at either the individual annuitant level or at the plan level as opposed to the contract level.

- ACLI believes the issue is more about flooring the prescribed mortality assumption at the company's best estimate assumption and not allowing the potential sufficiency from mortality to be offset deficiency from other risks. Having the flooring requirement at the company's prudent estimate is inconsistent with VM-21 where the intent of the SPA is to catch assumption outliers.
- C.8: The highlighted reference below should be updated, and the anchor date should be updated to 12/31/2022 based on previously given NAIC feedback (*8.d, Group Annuity purchased by retirement plan should continue to use the MP-2021 mortality improvement scale rather than switching to AA scale*).
    - There was confusion during the field testing regarding the basis year so the date above should be verified as well for mortality improvement in the updated draft.

8. Mortality

The following mortality rates shall be used:

a. Individual annuity contracts within the Accumulation Reserving Category shall use the mortality rates in Section 6.C.3.h.i with Projection Scale G2 mortality improvement factors applied from December 31, 2021 up until each future projection year.

b. Individual annuity contracts within the Payout Annuity Reserving Category other than Structured Settlement Contracts shall use the

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mortality rates in Section 6.C.3.h.ii with Projection Scale G2 mortality improvement factors applied from December 31, 2021 up until each future projection year.

c. Individual Structured Settlement Contracts shall use the mortality rates in Section 6.C.3.h.iii with the following mortality improvement factors applied from December 31, 2021 up until each future projection year.

[Future improvement]

d. Group annuities, international business, and contracts within the Longevity Reinsurance Category shall use the mortality rates in Section 6.C.3.h.iv with Projection Scale AA mortality improvement factors applied from the valuation date up until each future projection year. However, if the company's prudent estimate assumption is used in Section 6.C.3.h.iv and already reflects mortality improvement from December 31, 2021 up until the projection year, then Projection Scale AA mortality improvement factors shall not be used.

- Expenses
  - The maintenance fee for a fixed annuity ($100) is the same as that of a variable annuity. We believe the fixed annuity contract would result in a significantly lower fee than a variable annuity-based contract even if both have a GLB.
  - Future inflation is shown as 2% where VM-21 is changing to 2.5%. We suggest aligning with VM-21 and inflation for base expenses.
  - Can regulators clarify if the prescribed per policy maintenance for the institutional product is based on the policy or annuitants?
  - There is no guidance on how to develop the AV base for the products that do not have AV. One suggestion we have is to proxy AV as PV of the benefit using the UST10Y at the valuation date to discount (using the GPVA discount rate guidance)

- GAPV
  - 6.C.3 (Guarantee Actuarial Present Value): The draft defines the GAPV as "the integrated actuarial present value of the lump sum or income payments associated with all guaranteed living and death benefits, including account value, within the policy." Is the death benefit included here related to guaranteed death benefits associated with a GMDB? There is no death benefit included in GAPV within VM-21. Please provide clarification on whether the death benefits are associated with GMDB only. The language should also clarify that "ITM for Fixed Annuities without GLWB/GMDB should equal 1".
    - While the current language could be a simplification from VM-21 due to the withdrawal delay cohort method, we believe this should be different for VM-22. This causes a material difference in projected in-the-moneyness to lock in the discount factor for all scenarios at all times based off initial market conditions.

        - There are also language differences compared to similar sections in VM21. These should be aligned where reasonable. Examples – formula for integrated benefit, language about immediate election, AV growth at fixed credited rate or option rate vs 0% for VA.
    - In the Guidance Note, based on the NAIC clarification, the mortality improvement will stop at 2022. Would regulators be able to explain this rationale?
    - Could you also clarify the valuation date definition in 6.3.f? Is this based on the valuation date of the reporting? Or period you calculate the GVAV?

- Partial Withdrawal
    - 6.C.4 (Partial withdrawals): Can regulators give some examples of "other contracts in the Accumulation Reserving Category with lifetime guaranteed living benefits" in paragraph c that is not covered by paragraph a?
        - NAIC shared a flowchart that clarifies that the intent for contracts on automatic withdrawals, the amount is to be capped at the GLWB's guaranteed max annual withdrawal amount or the RMD amount. For contracts not on automatic withdrawals, the amount is to be capped at the free partial withdrawal amount.
        - Based on the flowchart, given the fact that any withdrawals before the commencement date will reduce the guaranteed benefit base, reflecting the column 3 - 5 in the table 6.5 and 6.6 will likely be inconsistent with the VM-21. It is also not intuitive that the rates are so much higher for NQ than Q especially after RMD age. Is there a labeling issue?
    - 6.C.4.a (Partial withdrawals): The partial withdrawal percentages for older policyholders after exercising their GLB are really high (20% - 43.5%). This causes a significant jump in their withdrawals when they start exercising (or needing to take required minimum distributions) which most likely will trigger excess withdrawals beyond their guaranteed annual maximum withdrawal amount. Can more context on the studies that support these assumptions be provided?
    - Additionally, do the utilization rates floor in paragraph c (shown in the table below) apply to the entire projection period? Flooring at the company's best estimate utilization assumption for the guaranteed living benefit at the prescribed utilization rates in aggregate under SPA is too onerous, would cause significant increase in run-time, and is inconsistent with the VM-21 guidance.

Table 6.8: Utilization Assumptions for Accumulation Reserving Category Contracts with Lifetime Benefits

Qualification Status	*Before 65*	*65 to 70*	*71 to 75*	*76 and above*
Qualified	*12%*	*20%*	*30%*	*35%*
Non-Qualified	*15%*	*40%*	*80%*	*95%*

- Full Surrenders
    - If AV = 0, ITM = 0 but then a minimum lapse rate is applied. Is it reasonable to assume 0% lapse if AV=0?
    - The guidance should clarify that the base lapse table for the fixed indexed annuities with GLWB follows the base lapse table for the fixed annuities with GLWB.

- ACLI suggest regulators add more examples to the guidance note on how to read the table 6.10 as it is currently difficult to understand for some.
    - Initial 3-year IGP and 3-year SC, renewing into 3-year IGP with 3-year SC, the base lapse rate in the contract years 1 to 7 be 1%, 1%, 1%, 75%, 1%, 1%, 1%
    - Initial 1-year IGP and 3-year SC, renewing into 2-year IGP with no SC, the base lapse rates in contract years 1 to 6 be 2.5%, 2.5%, 2.5%, 25%, 2%, 65%
- The prescribed assumption for DAI/FIA with GLWB dynamic lapse uses “cliff approach” to base lapse for shocked and post-shock periods. We do not believe this is supported by Milliman data and produces extreme swings in lapse rates.
- GMIR factor in dynamic lapses: We would recommend that this factor be based on the Max of the guaranteed crediting rate and the underlying GMIR. This can make a material difference for products like FDA during their surrender charge period.
- GMWB “in the moneyness” using AV instead of CSV: We would recommend this change as moneyness should be calculated based off cash surrender value rather than account value.
- Lapse skew: We think this should be consistent with company best estimate.
- GLWB utilization rate floor: We believe this needs more clarity in how it should be implemented.
- FIA option budget for dynamic lapses: This needs additional clarity.

Thank you once again for the consideration of our feedback and we look forward to future discussion on a future Subgroup call.

Much appreciated,

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cc: Amy Fitzpatrick, NAIC