**Memorandum**

To: Reggie Mazyck, NAIC, and LATF Life Actuarial (A) Task Force Members

From: Scott Michels, VP & Appointed Actuary, National Guardian Life

Re: AGT AAT 5th Exposure comments

Date: June 10, 2022

I have reviewed the most recent changes and am supportive of most elements of this Actuarial Guideline for Asset Adequacy Testing. I do have one concern, regarding the definition of Projected High Net Yield Assets, in paragraph 3.F.iii and its lack of application to the Scope paragraph 2.B. My specific concern is centered around the fact that certain assets are included in the calculation for scope in 2.B, but then are excluded from the majority of the rest of the guidance (4.A.ii through 5). I feel there will likely be situations where this difference would cause additional work with very little value added for smaller companies and their regulators. I’ve provided one hypothetical example:

2.B. Scope Calculation:

A company has actuarial reserves of $2 Billion

That company has $110 Million of Projected High Net Yield Assets.

$110 M / $2 Billion = 5.5%, so is included in the scope of this AG.

3.F.iii. Exemption for 4.A.ii through 5.

$90 Million of the Projected High Net Yield Assets are from Public, non-convertible, fix-rate corporate bonds with no callability.

So, only $20 M / $2 Billion or 1% of the assets would be required to apply the majority of these requirements.

I believe this is a potentially realistic situation for smaller companies when the current spreads are higher than the long-term spreads on their assets. I’m proposing to help those companies avoid the additional, non-value added work, by modifying the wording on 3.F.iii to be as follows (red font are my changes):

The following asset types can be excluded from both the scope of the guideline in 2.B. and the scope of requirements in sections 4.A.ii through 5:

(a) Cash or cash equivalents,

(b) Treasuries and agency bonds, and

(c) Public non-convertible, fixed-rate corporate bonds with no or immaterial callability.

Thank you for the opportunity to provide feedback in this matter. Please let me know if you have any questions on this recommendation.