**Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force**

**Amendment Proposal Form\***

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

**Identification:**

Fred Andersen, FSA, MAAA and Ben Slutsker, FSA, MAAA

**Title of the Issue:**

Clarify expectations on reflection of equity return volatility in VM-30 cash-flow testing.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-01

VM-30 Section 3.B (new item 7 with items below renumbered)

January 1, 2023 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

Add the following definition to VM-01

* The term “equity-like instruments” means assets excluding surplus notes, bond ETFs, and preferred stock ETFs that include the following:
  + Any assets that, for purposes of risk-based capital C-1 reporting, are in the category of common stock, i.e., have a 30% or higher risk-based capital charge.
  + Any assets that are captured on Schedule A or Schedule BA of the annual statement excluding bonds that receive bond-like designations.
  + Bond funds.

Add the following subsection 3.B.7. and renumber the items below:

1. When the form of asset adequacy analysis is cash-flow testing, the actuary should reflect how the volatility of investment returns for equity-like instruments may affect the asset adequacy results under moderately adverse conditions and shall not solely project the anticipated long-term average return (e.g., a single level assumption set to the long-term average).
   1. The following are examples of approaches that may be used to reflect the volatility of such returns:
      1. Stochastic modeling for equity returns, with accompanying analysis of risk metrics.
      2. As relevant to capture the risk, including up, down, and/or volatile equity return scenarios for each given set of interest rate paths.
      3. Projecting one or more market drops, taking into consideration future points at which cash-flow testing results could be vulnerable to market downturns.
      4. Reflecting a level return assumption set equal to a tail risk metric, for example, setting investment returns to the average of the worst 30% of future scenarios, i.e., CTE70.
   2. A qualitative description of why the equity return scenario used in asset adequacy analysis is moderately adverse in light of the company’s current or reinvestment portfolio should be provided.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

This is a next step after what was presented at the August 2023 NAIC meeting, where Actuarial Guideline 53 reviews revealed usage of flat, high, unchanging equity return assumptions for the length of 30+ year projections by many industry members.

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 11/30/23, 2/1/23 | SO |  |  |
| **Notes:** 2023-12 | | | |