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| **To:** | Scott O’Neal |
| **From:** | LIMRA |
| **Date:** | May 8, 2024 |
| **Subject:** | Comments on Exposure of APF 2024-07 |

The Variable Annuities Capital and Reserve Subgroup (VACRSG) has requested comments by May 9, 2024, regarding the exposure of APF 2024-07 – Updates to the VM21 SPA assumptions.

LIMRA respectfully submits these comments to the VACRSG of the National Association of Insurance Commissioners (NAIC) in response to this request.

The request for comments included views on whether the entire set of assumptions including mortality, expense and surrender should be considered for adoption.

We would like to provide some recent data regarding full surrender activity from the most recent Society of Actuaries (SOA)/LIMRA industry experience analysis of contract holder behavior for variable annuity contracts. This may be helpful to the subgroup in determining whether all 3 assumptions should be included in the current adoption.

The proposed VM21 standard assumption for full surrenders found in VM-21 Section 6.C.6 – is shown in Table 6.3 below.

**VM-21 Section 6.C.6 (Table 6.3 – Standard Table for Full Surrenders)**

|  |  |  |  |
| --- | --- | --- | --- |
| ITM | In surrender charge period, or in policy years 1–3 for contracts without surrender charges | First year after the surrender charge period | Subsequent years, or in policy years 4 and onwards for contracts without surrender charges |
| Under 50% | 4.0% | 25.0% | 15.0% |
| 50–75% | 3.0% | 18.0% | 10.0% |
| 75–100% | 2.5% | 12.0% | 7.0% |
| 100–125% | 2.5% | 8.0% | 4.5% |
| 125–150% | 2.5% | 6.0% | 3.0% |
| 150–175% | 2.0% | 5.0% | 2.0% |
| 175–200% | 2.0% | 4.5% | 1.5% |
| Over 200% | 2.0% | 4.0% | 1.0% |

The following table provides data consistent with Table 6.3 from the most recent SOA/LIMRA Industry Experience Study for VA contracts with a GLWB. Other types of guaranteed living benefit riders were included in the data collection but the data for those riders was materially less credible.

We note that the APF does not specify whether the surrender rates in Table 6.3 are on a count basis or a contract value basis. We have provided contract value basis results as this is the most common assumption structure.

Note that for the current study, the exposure by in-the-moneyness (ITM) is relatively low for the following categories in Table 6.3: Under 50%, 50-75%, 175%-200% and Over 200%. Therefore, we have combined these categories as shown in the table below to allow for greater credibility of results.

**SOA/LIMRA Study (2023 release) – VA contracts with GLWB**

**Surrender Rates – Contract Value Basis**

|  |  |  |  |
| --- | --- | --- | --- |
| ITM | In surrender charge period, or in policy years 1–3 for contracts without surrender charges | First year after the surrender charge period | Subsequent years, or in policy years 4 and onwards for contracts without surrender charges |
| Under 75% | 4.0% | 30.0% | 10.0% |
| 75–100% | 2.5% | 20.0% | 8.0% |
| 100–125% | 2.5% | 13.0% | 6.0% |
| 125–150% | 2.5% | 9.0% | 4.0% |
| Over 150% | 2.0% | 6.0% | 2.0% |

For contracts in the surrender charge period, the rates are substantially equal to those shown in Table 6.3 after rounding to the nearest .5 percent.

For contracts in the first year after the surrender charge period ends, the current study indicates slightly greater rates of surrender across all ITM groups.

For contracts beyond the end of the surrender charge period, the current study also shows a consistent pattern but slightly greater rates of surrender for all ITM groups except Under 75% where the surrender rates seem to be slightly lower.

The SOA/LIMRA study covers the period of the pandemic years 2020 and 2021. So, we also compared these results across both pre- and post-pandemic observation years and the pattern and levels shown in the table above held across both periods. So, the differences do not seem to be pandemic driven.

We hope this analysis is helpful to VACRSG in its discussions regarding the VM21 SPA assumption updates.

LIMRA appreciates the opportunity to provide comments on this matter. We are available to respond to any questions you might have on these comments. Feel free to contact Marianne Purushotham at [mpurushotham@limra.com](mailto:pnolan@soa.org) or (860) 249-3366 at any time.

Sincerely,



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LIMRA