AMERICAN ACADEMY of ACTUARIES

March 17, 2025

Mr. Ben Slutsker, Chair
Valuation Manual (VM)-22 (A) Subgroup, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: Comments on the Chair Exposure for Remaining Decisions on Framework

Dear Chair Slutsker,

On behalf of the Annuity Reserves and Capital Subcommittee (Subcommittee) of the American Academy of Actuaries,[1] I appreciate the opportunity to comment on the Chair Exposure for Remaining Decisions on Framework (Exposure) and am pleased to provide the following comments.

Aggregation

VM-22 has many similarities with VM-20, perhaps more than with VM-21—it encompasses a large variety of products, is prospective only (which may involve having to split portfolios between PBR and non-PBR business), and has clearly defined reserving categories. VM-20 recognized that separate model segments may be beneficial for different products from different portfolios within a reserving category while still allowing for aggregation, and the Subcommittee believes that VM-22 would benefit from this approach as well.

The key difference is how the Cash Surrender Value (CSV) floor is applied differently between VM-20 and VM-22 when multiple model segments are present within a reserving category in calculating the aggregate reserve. VM-20 allows for aggregation of discounted value of negative projected statement value of assets across model segments within the same reserving category (Sections 5.B and 7.H.4) before calculating a scenario reserve, flooring it at the CSV, and calculating the stochastic reserve.

Section 3 of VM-22 is similar to VM-20 when discussing reserving categories. However, 3.F.4 states, "To the extent that aggregation results in more than one model segment, the aggregate reserve shall equal the sum of the **SR amounts** [emphasis added] computed for each model segment." "**SR amounts**" are defined in Section 3.D.2 as, "CTE70 of the scenarios reserves following the requirements of Section 4." Although VM-22 does allow for the reserve to be determined in aggregate across contracts within the same reserving category as a single model segment in section 3.F.3, it does not allow for the aggregation across model segments within the same reserving category as is allowed in VM-20.

We believe that results will be similar aggregating across model segments and modeling a single segment. To model a single segment, there may be considerable implementation challenges when segmenting multiple, varied portfolios that back both PBR and non-PBR business, or portfolios that back contracts that are in separate reserving categories. However, due to the current draft requirements, companies will likely still find a way to model as a single model segment to allow for aggregation. The Subcommittee suggests that VM-22 should not incentivize establishing a single segment over multiple model segments in situations where the better modeling approach is to use multiple model segments.

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We do not believe that the increased complexity in merging portfolios that are backing PBR and non-PBR business is necessary or needed to allow for aggregation within a reserving category, and thus VM-22 should be consistent with VM-20. There is one slight change that may be needed as well to account for each model segment having a slightly different discount rate due to the additional asset portfolio method of VM-22 versus the fixed discounting rate in VM-20; however, this could be addressed by making the following changes:

Original VM-22 Section 3.F.4

4. To the extent that aggregation results in more than one model segment, the aggregate reserve shall equal the sum of the SR amounts computed for each model segment and DR amounts computed for each model segment for which the company elects to use the Deterministic Certification Option in Section 7.E.

Proposed VM-22 Section 3.F.4

4. To the extent that aggregation results in more than one model segment, the aggregate reserve for each reserving category shall be calculated as follows:

   a. If the company uses the NAER method described in Section 4.B.1.a:

      i. Project the accumulated deficiencies as described in Section 4.A and take the present value using the NAER as described in Section 4.B.2 for each model segment.

      ii. Combine the present values for each model segment and take the greatest present value in aggregate for each scenario. The aggregate scenario reserve for a given scenario shall not be less than the aggregate cash surrender value on the valuation date.

      iii. Calculate the CTE (70) of the aggregate values and subtract the aggregate PIMR.

   b. If the company uses the direct iteration method described in Section 4.B.1.b:

      i. Calculate the starting amount of assets as described in Section 4.B.1.b for each scenario of each model segment.

      ii. Add the starting amount of assets of each scenario for all model segments together. The aggregate scenario reserve for a given scenario shall not be less than the aggregate cash surrender value on the valuation date.

      iii. Calculate the CTE (70) of the aggregate values and subtract the aggregate PIMR.

   c. The benefit of aggregation across multiple model segments within a reserving category shall be disclosed in VM-31.

We appreciate the opportunity to provide these comments on the Exposure. If you have any questions or would like to discuss this letter further, please contact Amanda Barry-Moilanen (barrymoilanen@actuary.org), the Academy's policy project manager, life.

Sincerely,

Bruce Friedland, MAAA, FSA
Chairperson, Annuity Reserves and Capital Subcommittee
American Academy of Actuaries