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February 28, 2025

Life Actuarial (A) Task Force
NAIC

Re: Reinsurance Asset Adequacy Testing
https://content.naic.org/sites/default/files/inline-files/AG%20ReAAT_013025%20Exposure.docx

Dear Members of the LATF:

I am a retiree and am writing to comment as a consumer and annuity contract owner with skin in the game. My wife and I depend on variable annuities for a considerable portion of our retirement income. We purchased our annuities as a source of retirement income we would not outlive - not as speculative investments.

First, I want to request that the scope of the Asset Adequacy Testing project be expanded to cover all counterparty risk. By limiting the application of AAT solely to reinsurance, you encourage and abet the whack-a-mole behavior of insurers that regulators have tolerated in the industry – to the detriment of consumers. One example of this behavior is the exponential increase in offshoring counterparty risk to sidestep the GAAP rules for long-duration contracts contained in FASB ASU2018-12. Even more egregious is the behavior tolerated by regulators in connection with the AG49 rules for Indexed Universal Life illustrations. AG-49 had to be reissued twice and still doesn't protect consumers from misleading illustrations!

Second, great deference has been given to the companies you regulate by constricting the AAT project to disclosure-only and disclosure-only-very-lite for the 2025 reporting year. While I understand that regulators are currently playing catch-up, trying to understand the magnitude and effect of the mushrooming growth of reinsurance, in the Background section of the exposure draft, it states: *"The purpose of this referral is to propose enhancements to reserve adequacy requirements for life insurance companies by requiring that asset adequacy testing (AAA) use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business."* Rather than being an "educational exercise" as suggested by an industry lobbyist, the AAT project should anticipate the development of guardrails that will protect consumers. To that end, I propose adding Item 10 to the text, as follows:

10. Following the collection and analysis of data pursuant to this Guideline for the 12/31/2025 and 12/31/2026 Annual Statements, guidelines will be developed for the 12/31/2027 year to establish protections for policy owners, specifically to set guardrails for asset adequacy.

Third, in comments and discussions, reference has been made to the restrictions on US regulators' ability to regulate companies under the Covered Agreement (2017 Bilateral Agreement Between the United States of America and the European Union On Prudential Measures Regarding Insurance and Reinsurance). While your hands may be tied in terms of regulating, they are not tied in terms of disclosure to stakeholders. Supreme Court Justice Louis Brandeis stated, "Sunlight is said to be the best of disinfectants." I propose that upon the collection and analysis of the 2025 Annual Statements, an Asset Adequacy grading system be developed for the benefit of all stakeholders – including, but not limited to: policy owners (the most important stakeholders), insurance practitioners,

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researchers, academics, regulators and journalists. To achieve this, I propose adding Item 11 to the text, as follows:

11. Following the collection and analysis of data pursuant to this Guideline for the 12/31/2025 Annual Statements, a grading system will be developed to categorize asset adequacy for all insurers. Grading categories would be banded in 20% increments: 80-100% would be "best" (color code green), 60-80% would be above average (color code blue), 40-60% would be average (color code white), 20-40% would be below average (color code yellow) and 0-20% would be worst (color code red). If a company was not subject to AAT, that would be clearly noted. The results of the grading will be published and updated annually on the NAIC website as part of the Consumer Information Search Financial Overview Report.

Fourth, the exposure draft should be tested with data from some current events to see if the proposed rules are effective and predictive. Plug in the numbers for PHL Variable Life, Columbian Mutual, A-CAP companies, etc. Would these troubled companies be scoped out or fly under the radar undetected?

Now, here are my comments/suggestions for other provisions of the exposure draft – my changes in red:

2. B. (1) For year-end 2025, a complete listing of Asset Intensive Reinsurance Transactions ceded to entities, regardless of treaty establishment date, in a format similar to Schedule S of the Annual Statement. For 2025, significant reinsurance collectability risk is determined according to the judgment of the ceding company's Appointed Actuary and the listing will indicate which transactions, if any, have significant reinsurance collectability risk.

3. E. Deficient Block – When a block of business shows negative present value of ending surplus in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions such that additional reserves would be needed in the absence of aggregation. A listing of all Deficient Blocks and the additional reserves needed in the absence of aggregation shall be included in the Annual Statement.

3. I. Primary Security – [As defined in Section 4.D. of Actuarial Guideline 48] {or replace with another term to describe a stable asset supporting reserves}. An XOL shall not be considered a primary security.

3. K. Similar Memorandum – a regulator may (but is not required to) accept an actuarial report that is not a VM-30 submission to a state that contains at least the following elements:

5. B. For year-end 2025, the Appointed Actuary should consider the analysis required to be performed by this Actuarial Guideline, along with other relevant information and analysis in forming their opinion regarding the potential need for additional reserves. In the event that the Appointed Actuary believes that additional reserves are required (based on their application of appropriate actuarial judgment), then the Appointed Actuary should reflect that in their Actuarial

Opinion, including the reason for additional reserves, the amount of additional reserves needed and the effect of not depositing additional reserves.

This Guideline does not include prescriptive guidance as to whether additional reserves should or should not be held. ~~As is already the case, such determination is up to the Appointed Actuary, and t~~ The domestic regulator will continue to have the authority to require additional reserves as deemed necessary.

5. G. A Similar Memorandum submitted to the cedant's domestic regulator may be an appropriate alternative to cash-flow testing following VM-30 standards in some instances, if the Similar Memorandum is easily readable for review of the risks and analysis related to the scope of this Guideline, and based on the Similar Memorandum the cedant's domestic regulator finds that they are able to determine whether the assets are adequate to support the liabilities, with the assistance of the Valuation Analysis (E) Working Group. The US regulator reserves the right to accept or reject such Similar Memorandum in lieu of cash-flow testing.

As a consumer, I'm opposed to any ceding of risk transaction (whether to a reinsurer, other third party or any related party, including parent) that decreases an insurer's reserves or capital supporting contractual promises to policy owners or that reduces the insurer's claims-paying ability. Any such transaction should be subject to mandatory cash flow testing - regardless of the identity of the counterparty. In evaluating assets, the same asset should not be double counted for purposes of reserves and capital. I don't want to be left holding the (empty) bag, like the 92,000 PHL Variable Life policy owners.

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould