The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met via conference call Feb. 26, 2020. The following Subgroup members participated: Bruce Sartain, Chair and Vincent Tsang (IL); Jim Jakielo (CT); William Leung (MO); Bill Carmello (NY); Tomasz Serbinowski (UT); and Craig Chupp (VA). Also participating was: Elaine Lam (CA).

1. Discussed the Potential Revisions to VM-22

Mr. Sartain discussed the Subgroup priorities for revising VM-22, Maximum Valuation Interest Rates for Income Annuities to incorporate principle-based reserving (PBR). He acknowledged monitoring the American Academy of Actuaries (Academy) Annuity Reserves Work Group conference calls during which they work on the details of PBR for non-variable annuities. He said the target date for implementation of the Work Group’s PBR version of VM-22 is Jan. 1, 2023. Mr. Sartain said there are six items on which the Work Group needs state insurance regulator feedback. He anticipates that the Subgroup will provide that feedback via making recommendations to the Life Actuarial (A) Task Force.

He said current thinking is that all non-variable annuities will be subject to an exclusion test. Deferred annuity contracts passing the exclusion test will be valued according to the requirements of Actuarial Guideline XXXIII—Determining CARVM Reserves for Annuity Contracts with Elective Benefits (AG 33). The requirements for determining valuation interest rates for an immediate annuity that passes the exclusion test will default to the current version of VM-22.

Mr. Chupp questioned whether it is necessary to have a PBR approach for immediate annuities that fail the exclusion test. Mr. Sartain said that one aspect of a PBR approach would be a robust approach for handling reinvestment risk. Ben Slutsker (Academy Annuity Reserves Work Group) said the exclusion tests can be calibrated to consider the characteristics of the various annuity designs, including the duration, longevity risk and reinvestment risk. Ms. Lam said the Subgroup should consider that scoping immediate annuities out of the PBR approach would preclude them from being subject to VM-G, Appendix G – Corporate Governance Guidance for Principle-Based Reserves. She said having immediate annuities opt out by passing an exclusion test does not offer the same opportunity.

Mr. Leung asked if VM-22, which currently considers only valuation rates, should be expanded to include the valuation methods. Mr. Sartain said that the Subgroup charges include the potential for changes to valuation methodology, but it has not been determined whether a methodology change would reside in VM-22 or be placed elsewhere in the Valuation Manual. Mr. Serbinowski said having separate regimes for different subclasses of annuities encourages companies to search for regulatory arbitrage opportunities. Mr. Slutsker said the ARWG’s preference is to have all non-variable annuity requirements contained in a single Valuation Manual chapter. Mr. Sartain stated it was his intent to vote on these issues during the Subgroup’s next conference call.

Mr. Sartain said about three years ago, the Academy Standard Valuation Law (SVL) Interest Rate Modernization Work Group was asked by the Life Actuarial (A) Task Force to consider whether a new methodology for determining interest rates for the Commissioners Annuity Reserve Valuation Method (CARVM) would make sense. He said, given the move toward a PBR methodology for non-variable annuities, including the use of exclusion tests, it is questionable whether the Work Group’s work should continue. Chris Conrad (Academy SVL Interest Rate Modernization Work Group) said that because single premium immediate annuities (SPIAs) have little policyholder optionality, valuation of SPIAs will not require the same level of modeling sophistication required for non-SPIAs. He recommended pausing the Work Group’s work on SPIAs until the work on exclusion tests and other aspects of non-variable annuities valuation are farther along. Mr. Sartain said the group could quickly resume its work when the time arises.

Mr. Leung made a motion, seconded by Mr. Chupp, to request the Academy SVL Interest Rate Modernization Work Group to delay work until further notice on modernizing the process for determining valuation rates for non-SPIA non-variable annuities, as referenced in Mike Boerner’s letter of Jan. 25, 2017. The motion passed unanimously.

Having no further business, the VM-22 (A) Subgroup adjourned.