



## NAIC VM-22 Drafting Discussion Log

#	Topic	Description	Date	Tier	Outcome
1	VM-22 Scope and Definitions	Keep current definitions for what is in-scope or focus only on non-variable annuities out of scope	4/13/2022	1	Openness to use Section II of the Valuation Manual to determine scope rather than relying on definitions; ACLI to provide potential draft wording
2	Reserving categories and aggregation	Determine Option 1 or Option 2 from exposed reserve category definitions	4/13/2022	1	Preliminary vote to pursue Option 1
3	Small Company Exemption	Fixed Annuity PBR exemption, similar to life PBR exemption for smaller carriers?	4/13/2022	1	Voted to pursue a "Fixed Annuity PBR Exemption"; ACLI to propose a set of potential draft criteria for the exemption
4	Reinvestment Guardrail	Keep VM-20/VM-21 mix, Academy mix, TX mix, or other? Wait until field test for final decision?	4/27/2022	1	Wait until observing impact in field testing results before voting on a reinvestment mix guardrail
5	Principles & Risks Across VM Chapters	Build one section in the Valuation Manual for principles that apply to VM-20, VM-21, and VM-22	4/27/2022	2	Openness to interested party proposals for a common "principles" section, but will focus on working through other VM-22 decisions before exploring
6	General Assumptions Section	Add a section to the VM-22 draft on general considerations and requirements for assumption	4/27/2022	2	Will include a proposed general assumptions section ("Section 13") from Texas, to be consistent with a recent APF adoption on VM-21
7	Transition Period	Permit 1) early adoption and 2) retrospective adoption to the start of the 3-year transition period?	4/27/2022	2	Decided to not pursue early adoption; VM-22 will say silent on retrospective adoption to start of transition period, similar to VM-20
8	Minimum Error for Index Credit Hedges	What should be the minimum breakage expense (i.e., error) for modeling hedges supporting index credits?	5/11/2022	2	Will wait until seeing field testing results before minimum threshold
9	Longevity Reinsurance	How should longevity reinsurance be defined and treat negative reserves/recurring premiums?	5/11/2022	2	Academy presented on longevity reinsurance and will provide a refined definition; New Jersey proposal is exposed for reserving requirements
10	Categories for VM-31 Disclosures	What level of granularity should be required for disclosing PBR reserves for product groups in VM-31?	5/11/2022	2	Will wait until seeing field testing results before determining granularity of disclosures
11	Exclusion Test: SPIA contracts	Allow SPIAs to have the option of PBR vs. pre-PBR valuation without an exclusion test?	6/1/2022	2	Voted to allow SPIAs automatically pass exclusion testing, subject to criteria around optionality and a liability duration threshold (TBD)
12	Exclusion Test: PRT Certification Method	Allow PRT contracts to use the Certification Method for exclusion testing?	6/1/2022	2	Do not allow PRT to undergo the Certification Method
13	Exclusion Test: Grouping	Group between products with significantly different risk profiles?	6/1/2022	2	Do not allow grouping between products with significantly different risk profiles, consistent with VM-20 and TDI's proposal
14	Exclusion Test: Future Premiums	For the stochastic exclusion ratio test, determine whether to include future premiums	6/1/2022	2	Include future premiums in the numerator, but only benefits and expenses in the denominator, consistent with VM-20.
15	Exclusion Test: Deterministic Reserve	To pass the deterministic test, does the company need to pass or disclose 16 scenarios with baseline mortality?	6/1/2022	2	Require passing the ratio test for 16 economic scenarios under 100% of the anticipated experience mortality assumption
17	Import Reinsurance Wording from VM-20	Import VM-20 wording on incorporating contractual or additional characteristics for modeling reinsurance?	6/14/2022	2	Include proposed wording from VM-20
18	Fair Value Certification	Include fair value certification, similar to existing VM-21 requirement?	6/14/2022	2	Include fair value certification disclosure for non-index credit hedging programs
16	PRT Mortality	Permit PRT mortality with limited credibility to follow a third-party provider instead of an industry table?	6/14/2022	2	Voted in favor of using a prescribed table; do not permit a third party table upon limited credibility
19	Allocation Method	Determine Option 1 or Option 2? Wait until observing field test results before deciding?	6/29/2022	2	Wait until field test results and further research by ACLI on tax implications prior to revisiting

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20	Working Reserve	Use a working reserve concept to serve as a floor for contracts without cash surrender value?	6/29/2022	2	Academy will work on a working reserve concept for contracts without cash surrender value, though may be little impact due to reserving categories
21	Grouping for Fund Value Depletion	Appropriate reserving category for deferred annuities with GMWBs/GMIBs that have depleted fund value	6/29/2022	2	Decided to leave these contracts in the "Payout Reserving Category" for now, but will add a drafting note to solicit feedback an optional approach
22	RBC Guidance Note	Retain the guidance note in VM-21 that discusses the relationship between reserves and RBC?	TBD	3	ACLI will provide the full text for the Subgroup to consider
23	Principle 1	Should the edits to Principle 1 for VM-22 be incorporated into VM-21 as well?	TBD	3	For now, will plan to focus only on VM-22, as LATF can explore the other VM chapters upon the Subgroup's recommendation of the VM-22 draft to LATF
24	Principle 2	Does setting an SR to be reasonably conservative over a span of economic cycles contradict other principles?	TBD	3	ACLI will provide the full text for the Subgroup to consider
25	Aggregation Limits	Guidance note stating aggregation may not be possible for experience rated group and reinsurance treaties	TBD	3	Will include this text in the VM-22 draft
26	Principle 3	Delete "Generally, assumptions are to be based on the conservative end of the confidence interval"?	TBD	3	Retain this language
27	Principle 5	Delete sentence about the principle to not reduce the reserve unless reducing the risk?	TBD	3	Retain this language
28	Risks not reflected	Retain or remove the list of "Risks not reflected" in VM-22?	TBD	3	Remove subsection 3, but keep section 4 and update title to include "risks not reflected"
29	Separate Account References	Recommendation to delete all references to "separate accounts" in VM-22	TBD	3	For now, will keep references to "separate accounts" and will add a drafting note to solicit feedback
30	Combination Risks	Proposal to delete "Risks modeled in the company's risk assessment processes that are related to the contracts"	TBD	3	Retain this language
31	Immaterial Risks	Recommendation to delete sentence about not reflecting risks that do not materially affect the reserves	TBD	3	Remove this language
32	Liquidity Risk	Refer to liquidity risks for "run on bank" or "sudden and significant levels of withdrawals and surrenders"	TBD	3	Use the "run on bank" description
33	Significant Future Reserve Increases	Strike this item from the list of risks not reflected?	TBD	3	Retain this language
34	Fixed Annuity Definition	Need to define a "fixed annuity"?	TBD	3	Will replace all references to "fixed annuity" with "non-variable annuity"
35	Longevity Swaps	Are these contracts included in the definition of PRT?	TBD	3	As a follow-up, Academy will include reviewing the definition of PRT when revisiting the definition of longevity risk
36	CSV and GMDB definitions	Retain VM-21 definitions for "cash surrender value" and "guaranteed minimum death benefits"?	TBD	3	Will not retain the definition for "cash surrender value" and will move the "guaranteed minimum death benefits" to VM-01
37	Assumed reserve level for RBC	Question whether CTE70 was the assumed level for reserves upon determining RBC	TBD	3	Question relates to RBC, and therefore did not discuss as part of the VM-22 Subgroup
38	VM-23	Consider reinstating "VM-23" to avoid confusion around the where exemptions/exclusions point to vs. PBR?	TBD	3	Subgroup discussed moving current VM-22 requirements (currently Section 14) to "VM-V". Will further discuss at the end of tier 3 comments

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39	Pre-Reinsurance	Request to develop further guidance around pre-reinsurance	TBD	3	ACLI will consider whether to provide suggested language to clarify pre-reinsurance cash flow requirements in response to the next exposure
40	Deterministic Reserve	Use this term for the single scenario reserve calculated upon passing the deterministic exclusion test?	TBD	3	Will replace "scenario reserve" with "deterministic reserve". Also added "aggregate minimum reserve" as the term for the final reserve
41	Deterministic Certification Option	Keep this terminology or change?	TBD	3	Given that the term "deterministic reserve" will not be used, decided to keep this terminology
42	Stochastic Exclusion Test	Change Section 3.E to "Stochastic Exclusion Test" header?	TBD	3	Accepted comment and made change to update header
43	Guidance Note for Exclusion Test	Remove the guidance note that clarifies that AG33/AG35 may be used upon passing the exclusion test	TBD	3	Decided to remove this guidance note
44	Prudent Estimate Assumptions	Move Section 3.G to Section 4 of the document?	TBD	3	Subgroup decided to hold off for now
45	Simplifications	Port over VM-21 Section 3.H on simplifications, approximations, and modeling efficiency techniques?	TBD	3	Subgroup agreed to add this wording for simplifications, to be consistency with VM-21
46	Review experience every three years?	Make this a requirement for the qualified actuary?	TBD	3	Subgroup agreed to include a requirement to review experience every three years
47	Simplification example for the SPA	Add an example of a simplification for the SPA upon development	TBD	3	Delete for now and revisit upon development of the SPA
48	Stochastic Mortality	Consider including stochastic mortality in the stochastic reserve for longevity reinsurance?	TBD	3	Subgroup agreed to port over VM-20 language on stochastic modeling when static prudent estimates are not appropriate for liability assumptions
49	MVA Guidance Note	Is the market value adjustment guidance note from VM-21 still appropriate for VM-22?	TBD	3	
50	Hedging Reorganization	Move parts of Section 4.A.4 to Section 9, which covers hedging	TBD	3	
51	Future Hedging Programs	Align VM-22 draft to be consistent with APF 2020-12 adopted edits for VM-21?	TBD	3	
52	Index Credit Hedge Margin	Does this reflect both model risk and real-world error? How does stress testing justify the error?	TBD	3	
53	Margin on Hedging Paragraph	Remove this paragraph if included in another section, even upon edits from TDI/OPBR?	TBD	3	
54	Revenue Sharing	Is the section of revenue sharing applicable to non-variable products?	TBD	3	
55	Projection Period	Use consistent language with VM-20?	TBD	3	
56	PIMR	Include pre-tax IMR in VM-22?	TBD	3	
57	MVA on CSV Floor	Apply the market value adjustment factor to the cash surrender value reserve floor for applicable products?	TBD	3	

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58	Consistency with Managed Business	Modify NAER requirement to have assets modeled in a manner consistent with how business is managed?	TBD	3	
59	Limits on NAER	Define a specific cap or floor for the NAER instead of saying it should not be "unreasonably high"?	TBD	3	
60	Reserve Floor	NY comment on using CARVM as a reserve floor	TBD	3	
61	Longevity Reinsurance & SPA	Require the k-factor approach to address negative reserve issue for longevity reinsurance in SPA?	TBD	3	
62	Longevity Reinsurance & Exclusion Testing	Require the k-factor approach or something similar for longevity reinsurance in exclusion testing?	TBD	3	
63	Standard Projection Amount	Equitable comment on supporting SPA with company assumptions insignificant risk factors	TBD	3	
64	Exclusion Testing & SPA	Modify exclusion test to address the standard projection amount?	TBD	3	
65	Hedging eligibility for exclusion testing	Refine wording around the restriction for not allowing blocks with hedging programs to use exclusion testing?	TBD	3	
66	Mortality Stress Tests	If using the NY7 for the Certification Method, add mortality stress scenarios?	TBD	3	
67	Mortality Shock	Include the mortality shock for the ratio test based on the company materiality standard if more restrictive?	TBD	3	
68	Baseline Mortality Test	Include the baseline mortality test in determining the exclusion test?	TBD	3	
69	Permutations	Include note on number of exclusion test permutations for clarity?	TBD	3	
70	Non-Proportional Reinsurance	Retain section on non-proportional reinsurance?	TBD	3	
71	SERT if Other Tests Fail	Prohibit passing the SERT if the demonstration test fails?	TBD	3	
72	Demonstration Test	Remove options in 1.a and 2.a?	TBD	3	
73	Deterministic Exclusion for SPA	Consider SPA for the deterministic exclusion test	TBD	3	
74	Deterministic Exclusion Scenario	Consider disintermediation risk for the SPIA scenario?	TBD	3	
75	SPIA Guidance Note	Remove guidance note specifying that the deterministic exclusion test generally applies to SPIAs?	TBD	3	
76	Delta Hedging	Replace or remove example about delta hedging for VM-22?	TBD	3	

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77	Policyholder Behavior Considerations	Suggestion to re-word as considerations instead of questions?	TBD	3	
78	Non-Elective Benefits	Remove guidance note to limit modeling non-elective benefits after CSV is depleted if reducing reserves?	TBD	3	
79	100% Policyholder Efficiency	Assuming 100% policyholder inefficiency contradicts VM Section II 6.H.2, so revise VM Section II?	TBD	3	
80	NGE Board of Directors	Comment that only allowing NGE exclusion if approved by the Board does not necessarily seem reasonable	TBD	3	
81	Unsupported Judgement	Comment to remove the reference to using "unsupported actuarial judgement" from Section 11	TBD	3	
82	Mortality and Reinsurance	Does Section 11.A require evaluation of a plus vs. minus segment differently for pre- vs. post reinsurance?	TBD	3	
83	Little or No Data	Does " <u>little or</u> no data" need to be in the header of Section 11.B.3?	TBD	3	
84	Improvement with Limited Experience	Consider not only credibility blending the base mortality assumption but also the improvement assumption	TBD	3	
85	Option 1 DR vs SR	Require separate allocation for DR vs. SR for allocation Option 1 (Section 13)?	TBD	3	
86	Option 2 for Direct Iteration Method	Option 2 is not designed to work for the Direct Iteration Method	TBD	3	
87	Option 2 Single Scenario	Could produce unstable allocation when products with different risk profiles are aggregated for PBR	TBD	3	
88	Index-linked annuity	This term is used in the proposed Section II, Subsection 2 draft, but is not defined	TBD	3	
89	Modified Guaranteed Annuities (MGAs)	VM-21 has language that exempts contracts falling under scope of MDL-255; does this contradict Section II edits?	TBD	3	