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Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: Feedback on the Concept for Starting Asset Allocation and the Academy VM-20 Spread and Default Methodology Review

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on two items exposed during the 2026 NAIC Summer National Meeting: the Concept for a Starting Asset Allocation amendment proposal form and the American Academy of Actuaries' VM-20 Spread and Default Methodology Review. Given the interaction of these proposals, ACLI is providing a single, holistic response. We note that these two topics, while linked through the net asset earned rate calculation, raise analytically distinct questions - the Starting Asset Allocation concept addresses controls on asset segmentation and documentation, while the Academy's review addresses the calibration of the prescribed default and spread methodology itself. Our comments below address each on its own terms.

These concepts raise important questions about how asset characteristics and company asset-management practices should be reflected in principle-based frameworks. Principle-based reserves should reflect the risks associated with liabilities and supporting assets, including management practices that reduce those risks through risk management practices or reduced disintermediation risk. As more business, particularly the asset-intensive business contemplated by VM-22, becomes subject to principle-based requirements, transparency regarding these processes will become increasingly important, and ACLI supports efforts to enhance that transparency. At the same time, any new requirements should be tailored to a clearly identified regulatory concern, recognize the purpose of the applicable actuarial analysis, and avoid imposing prescriptive requirements that do not improve the reliability of the resulting analysis.

Starting Asset Allocation Concept

ACLI supports the underlying principle that modeled asset segments should be consistent with actual company management practices. Documentation should be sufficiently robust to demonstrate this consistency to regulators while avoiding duplication of existing materials or unnecessary prescription. ACLI offers the following recommendations regarding the details of the proposal:

We recommend excluding VM-30 from the scope of the APF.

The concerns presented in a PBR calculation do not translate directly to asset adequacy testing. Asset adequacy testing evaluates the full company liability portfolio and the assets supporting those liabilities. This differs from statutory reserving, under which a company may have substantial blocks of both PBR and pre-PBR business, with the latter continuing to be subject to formulaic reserve requirements. In that setting, controls governing the allocation of assets to a PBR calculation may serve a specific purpose. The same rationale does not carry over to asset adequacy testing, where the broader portfolio is already subject to testing.

More fundamentally, asset adequacy testing is an adequacy test, not a reserve calculation. Its purpose is to assess the adequacy of reserves and other liabilities in light of the assets supporting them. Applying prescriptive starting asset requirements developed for PBR could move asset adequacy testing toward a reserve-calculation framework and alter the nature of the analysis. Requirements designed to govern the calculation of a PBR should not automatically be extended to an analysis designed to assess whether established reserves are adequate.

Additionally, there are robust regulatory and professional frameworks governing asset adequacy testing:

- VM-30 and AG 53 have extensive requirements addressing documentation, modeled assets, investment assumptions, and projected yields. We are unaware of any specific regulatory gaps, and if the concern is that existing asset adequacy requirements are not being followed or applied as intended, the appropriate response may be enhanced compliance with existing requirements rather than an additional regulatory framework. If there are regulatory gaps, we would like to better understand what problems regulators are trying to solve and how this mechanism helps achieve that goal.
- ASOP No. 22 addresses the selection and use of assets in the analysis. If there are any deficiencies in the professional standards, we would recommend LATF present their concerns to the Actuarial Standards Board for consideration.

Existing documentation that meets existing requirements should be acceptable.

A standardized template may not be necessary in all cases. Companies already produce much of the documentation contemplated by the proposal, and company audits, regulatory reviews, and financial examinations provide mechanisms for evaluating compliance even when supporting information is maintained in different forms. If regulators determine that a standardized template is necessary, its intended purpose should be clearly identified. For example, if the objective is comparison across companies, differences in business models, asset strategies, and liability profiles could make standardized information appear comparable when it is not.

Limitations of inforce application of PBR should be recognized.

The appropriate treatment of the proposed VM-22 full inforce exemption may depend on the ultimate scope of retrospective adoption. If retrospective adoption is limited to business issued on or after January 1, 2017, some inforce business would remain outside PBR, making the relevant considerations more comparable to VM-20. Further, the transition period before implementation of VM-22 would create a challenge regarding how these requirements would apply. ACLI recognizes the regulatory interest in implementing these requirements through the 2028 Valuation Manual. However, the requirements should include appropriate and reasonable accommodation for business that remains outside a PBR framework, including during the transition period.

Academy VM-20 Spread and Default Methodology Review

ACLI appreciates the Academy review of the spread and default methodologies. The Academy asserted that these methodologies are generally still appropriate for use today for non-callable corporate bonds. That conclusion does not preclude consideration of targeted refinements, including the following questions:

- Should a default table developed for corporate bonds apply to asset classes with materially different loss experience?
- Should the levelized default cost approach be reconsidered? That is, should a CTE70-stressed default assumption, applied identically in every scenario, be paired with a reinvestment spread assumption reflecting only average conditions in that same scenario since historically defaults and spreads move together, not separately?
- Should the recovery assumption be more granular?
- Should the mapping of assets without Moody's ratings, including private loans and mortgages, be reviewed?

ACLI will continue discussions with its members to identify specific refinements that may warrant further review. We recognize the limitations on Academy resources available to evaluate and develop updated methodologies and are prepared to assist in developing recommendations.

ACLI remains concerned about limiting the benefit of alternative guardrail reinvestment strategies to specific products. The documentation contemplated by the starting asset allocation concept may provide a basis for evaluating whether and how a refinement to the guardrail would be implemented. This work may also help develop a path towards recognizing any missing components associated with more illiquid assets without weakening the guardrail's credit-quality objective. ACLI supports further dialogue on this issue as LATF develops the starting asset allocation proposal and considers potential refinements to the spread and default methodology.

Conclusion

ACLI supports continued work on both exposures. That work should preserve the CTE70 governing target, distinguish credit risk from other components of spread, and ensure that starting asset allocation requirements remain tailored to the purpose of the applicable actuarial framework. For asset adequacy testing in particular, additional requirements should not be adopted without first identifying a specific gap that is not already addressed by VM-30, AG 53, or ASOP No. 22.

Thank you for the opportunity to provide these comments. ACLI looks forward to continuing the dialogue with LATF, the Academy, and other interested parties.

Sincerely,

Colin Masterson

cc: Scott O'Neal and Amy Fitzpatrick, NAIC