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September 1, 2021

Reggie Mazyck
National Association of Insurance Commissioners
1100 Walnut Street – Suite 1500
Kansas City, MO 64106-2197

Re: VM-22, ARCWG Proposal

I appreciate the opportunity to provide comments on the document ARCWG_VM_22_Draft_Proposal_July_2021_Combined.pdf.

Before getting into some of the cosmetic items, I think it is important to make sure the foundation of VM-22 is actuarially sound. For a number of years, I have highlighted my concerns with pre-tax IMR (PIMR).

Conceptually, IMR is not a cash flow and therefore does not directly impact the quantification of assets required to mature the liabilities.

Let's take a simple example. I have promised to make a $100 annuity payment at the end of the year. Let's assume I invest 100% in cash with no expected return (or expenses). It would seem that my balance sheet presentation for this liability would consist of $100 invested assets (Cash) and a $100 reserve.

Assets		Liabilities	
Cash	100.00	VM-22 Reserve	100.00

Now let's assume that my $100 cash resulted from the sale of an asset that generated $10 of IMR. Statutory accounting requires the establishment of a liability equal to the post-tax IMR of $10. I still have $100 cash, but I also have a liability of $10 for IMR, therefore rather than holding a reserve of $100, under current statutory accounting rules I should be allowed to reduce the reserve to $90 because I am holding an additional liability of $10 in IMR. This still requires the $100 in invested assets to mature the obligation.

Assets		Liabilities	
Cash	100.00	VM-22 Reserve	90.00
		IMR	10.00

Now comes my confusion. In VM-22, why am I actually able to hold a reserve of $87.34? Implied PIMR is 12.66 [10/(1-.21)]. The reserve is then $87.34 [100 – 12.66]. I now have assets of $97.34 to support a $100 annuity payment. What is the justification for this?

Assets		Liabilities	
Cash	97.34	VM-22 Reserve	87.34
		IMR	10.00

I personally believe pre-tax IMR was an ill-conceived concept and artificially reduces reserves under the PBR framework. Therefore, I believe the Academy's ARCWG proposal is fundamentally flawed and should not be adopted with the inclusion of the pre-tax interest maintenance reserve (PIMR).

Sincerely,

William H. Wilton, CFA, FSA, MAAA