October 19, 2021

**TO:** Reggie Mazyck, NAIC

**RE:** ARCWG VM-22 Framework Exposure

Dear Mr. Mazyck:

I’m writing to comment on the lack of a true exemption from Annuity PBR as outlined in VM-22.

VM-22 contains a number of exclusion tests, but these differ in meaningful ways from the Life PBR small company exemption (SCE). The primary difference is in the level of complexity required to demonstrate compliance with any of the VM-22 exclusion tests.

The Life PBR SCE is simple by design. It can be completed on a single page using data from financial statements that are readily available. The criteria for this exemption were also simple by design and intentionally did not require any modeling to demonstrate compliance. This exemption was crucial to gaining support for Life PBR from smaller companies with smaller actuarial departments whose primary concerns about PBR came from expense and resource management rather than capital management. For many companies, such an exemption was a prerequisite for their support of PBR during the legislative process.

On the other hand, demonstration of compliance with any of the exclusion tests in VM-22 will likely require a modeling exercise using multiple interest rate scenarios along with supporting documentation that is not meaningfully less than the work and documentation required for those who do not pass an exclusion test. This is hardly the same kind of exemption as is included for Life PBR. Furthermore, it is my understanding that since VM-22 is an amendment to an already adopted valuation manual, it is not required to go through the legislative process and be adopted by state legislatures. If this is the case, I can’t help but wonder if smaller companies would have been supportive of PBR in general had they been aware that their exemption from it could be placed in jeopardy by future edits to the valuation manual.

Given that formulaic reserves have protected the solvency of life insurers for decades in the US, a true exemption should remain available for well-capitalized companies with smaller levels of annuity production who wish to continue to avoid the complexities and expenses associated with model-based reserves.

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