EQUITABLE

DATE:	November 19, 2021
FROM:	Stephen Tizzoni, Head of Actuarial Regulatory Affairs
SUBJECT:	Equitable Comments on Fixed Annuity Principles Based Reserve (PBR) Proposal

Equitable appreciates the opportunity to comment on the exposed Fixed Annuity PBR framework. Below are our views on two key aspects of the framework: (1) Standard Projection Amount; and (2) Aggregation of Reserves. The remainder of our views are appropriately captured in the ACLI comment letter.

Standard Projection Amount (SPA): Equitable favors the Standard Projection Amount as a binding floor over a non-binding disclosure item. A binding Standard Projection Amount mitigates the risk of overly optimistic company assumptions feeding reserves that will ultimately be insufficient to pay for future policyholder obligations. We cite several reasons in support of its use as a binding floor:

- Success of precedent: VM-21 is the industry precedent for holding a Standard Projection Amount as a binding floor. While some argue that this aspect of the framework may produce a non-economic reserve, in practice, the VM-21 Standard Projection Amount has had no such effect; rather, we believe its enactment motivated several companies to strengthen their weakest assumptions.
- Resource prioritization: The scope of VM-22 is vast, and therefore the Standard Projection Amount assumptions may be resource-intensive to develop. We believe that making the Standard Projection a binding floor will attract appropriate focus on its calibration.
- Leverages valuable industry data: Companies have differential amounts of experience data upon which to formulate assumptions. The SPA will ensure companies without access to credible experience data have a guardrail to use in their otherwise judgmental assumption setting process.
- Safeguard against actuarial judgment for untested assumptions: The Standard Projection Amount allows regulators to safeguard the industry against historically untested assumptions, such as policyholder behavior (e.g. lapses) when interest rates change significantly from business conditions at issue, or very long-dated lapse or persistency risk.
- Addresses a priority gap in the regulatory framework: The mis-estimation of complex actuarial processes has been the root cause behind the most acute insurer insolvencies. At present, the reserve and capital framework (a) omit any RBC charge for the preponderance of complex actuarial risks and (b) the provision for adverse deviations in reserves has frequently failed to protect insurers from severe losses. The establishment of properly calibrated guardrails on assumptions material in impact and high in uncertainty will eliminate the likelihood of severe insolvencies driven by actuarial mis-estimation and rectify a gap in the regulatory framework.

We also recommend that regulators carefully define the scope of the Standard Projection Amount assumptions and, for insignificant assumptions that are difficult to develop, rely on the company's own principles-based assumptions with appropriate scrutiny and disclosure.

Aggregation of Reserves / Reserving Categories: Per Equitable's December 2020 comment letter, we support full aggregation for purposes of calculating the VM-22 reserve as the aggregation of risk is at the core of the insurance industry. As noted previously, the key risk of including aggregation within reserving is the risk that the projected profits are not realized and are not available to supplement reserves for in-the-money contracts/product lines. As such, the risk of aggregation equates to the risk that economic and policyholder behavior assumptions on profitable product lines are not realized. These risks can be mitigated through mechanisms such as a binding Standard Projection Amount that ensures company assumptions are not idealistic.

If less than full aggregation was permitted, we support splitting products based on payout vs. accumulation phase as reflected in Option 2 in the exposure draft.

Conclusion: Equitable appreciates the opportunity to comment on the exposed VM-22 proposal and we look forward to continuing to work with regulators to reach an appropriate principle based reserving framework for fixed annuities. We are available to discuss our comments further as desired.

Sincerely,

Stephen M. Tizzoni, FSA, MAAA

Stephen Tizzoni, Head of Actuarial Regulatory Affairs