Brian Bayerle
Senior Actuary

May 2, 2022

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force (LATF)

Mr. Fred Andersen
Chief Life Actuary, Minnesota Department of Commerce

Re: March Exposure of Actuarial Guideline Asset Adequacy Testing

Dear Messrs. Boerner and Andersen:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit the following comments on the March 31st exposure of Actuarial Guideline on Asset Adequacy Testing (AAT, collectively Guideline). Our comments will be limited to scope of the assets and calculation of the benchmark yield, and additional comments will be provided on Sensitivity Testing at a future date.

Scope of the assets:
We recommend removing the following asset types from the scope of the Guideline:
- Insulated Separate Accounts
- "Vanilla" Bonds (default risk is primary risk, and cashflows are predictable)
- Direct Mortgage Loans (Commercial, Agricultural, Residential)
- Real Estate
- Mortgage Pass-Through Securities (not complex Mortgage-Backed Securities)

Calculation of benchmark yield:
We recommend the following:
- Benchmark requirements should not be applied seriatim, but rather at the level of the reinvestment categories; otherwise, you could double count extra default charges (e.g., if higher yielding assets receive an additional haircut, lower yielding assets not receiving the haircut will still receive the average default cost which would be overstated);
- There could also be double counting of default charges for securities where certain risks are modeled directly in the cash flows. For example, if a callable bond is called in a decreasing interest rate scenario, then that risk is already accounted for.

- Summary attribution on inforce assets by reinvestment categories, and allow companies to determine how to apply against the benchmark (if not aligned, do something reasonable and provide rationale in the Memorandum);
- Apply PBR CR 10 consistently in the requirements.

Approach:

- Use a market yield approach (if market yield not available, use a reasonable approach and provide rationale in the Memorandum); for inforce assets, use Treasury rates as of the valuation date not as of the purchase date;
- We believe a long-term spread should still be used as the benchmark whether the market yield approach uses purchase date or valuation date. The use of current spreads in the benchmark calculation would create a lot of volatility, bringing assets in and out of scope as market conditions change. Since the attribution would be more theoretically correct to use current spreads, we suggest the following addition in Section 5.B.ii: “(d) Deviations of current spreads from long-term spreads.”
- For floating rate assets, treasury rate to be based on tenor to reset investment income (e.g., if the investment income is reset quarterly based on the 90-day Treasury plus a fixed specified spread, use 90-day rate) rather than time to maturity;
    - We would support the NY Special Considerations spread capping methodology to address our concerns related to WAL for floating rate assets. The next is 2021 NY Special Considerations Letter, Item 7, Page 9:

      “For this purpose, net yield pick-up is defined as the yield pick-up versus comparable investments that are generally regarded as “risk free” with respect to default risk (e.g., U.S. Treasuries) minus default provision based on current market values. For floating rate assets, the comparable U.S. Treasury is that with a time to maturity equal to the time until the next reset date for the floating rate asset. For fixed and floating rate notes the weighted average life is defined as the weighted average number of years until 100% of the outstanding principal is expected to be repaid, rounded to the nearest whole number but not less than 1. For assets that mature after 30 years, the weighted average life for determining the net yield pick-up shall be 30.”
- The requirements should be internally consistent; to the extent the Appointed Actuary identifies something is not, provide rationale on how addressed in the Memorandum.

Other:

- Does not apply to RBC C3 testing.

ACLI will contemplate additional recommendations and edits to these considerations on the benchmark yield.

ACLI is appreciative of your consideration of our comments and looks forward to a future discussion.

Thank you for your consideration,

B Bayerli

cc: Reggie Mazyck, NAIC