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Ben Slutsker

Chair, NAIC Valuation Manual (VM)-22 (A) Subgroup

Elaine Lam

Vice-Chair, NAIC Valuation Manual (VM)-22 (A) Subgroup

Re: SPA Policyholder Behavior Assumptions Proposed Edits

Dear Chair Slutsker and Vice-Chair Lam:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the VM-22 (A) Subgroups latest exposure which outlines proposed edits to the Standard Projection Amount (SPA) Policyholder Behavior Assumptions. ACLI would also like to thank regulators, NAIC staff, and other key stakeholders for all of the tremendous work that has been done to date as we begin to move towards finalizing the new VM chapter for non-variable/fixed annuities.

Regarding the exposure document, ACLI is generally in favor of the proposed edits though we have a number of questions and further comments that we would like to see addressed prior to final consideration by the Subgroup.

Broadly, we believe it would be beneficial to develop assumption variations by distribution channel since experience varies widely depending on where it is sold. We also think it would be cleaner to adjust the Cash Surrender Value (CSV) based on the lapse function than the current Market Value Adjustment (MVA) logic proposed. Lastly, our members noted that they would appreciate additional guidance from the NAIC on how the utilization rates should be implemented.

The remaining ACLI commentary has been sorted below by subject area:

Partial Withdrawals –

- Table 6.4: We are in favor of the new more simplified approach given there is a reserve comparison between prescribed (SPA) and company assumption results anyway and appreciate the correction to the Q/NQ labels.
- Regarding GLWB utilization, minimum cumulative utilization rates are provided but those rates are only split by Q/NQ. Whether these minimum rates are reasonable will heavily depend on the product features and average issue age of the business. We suggest this assumption be revisited at a future opportunity.

Full Surrenders -

- The MVA Factor is 0 when it is in effect which means, since MVAs are typically in effect during the SCP, the Market Factor is 0 during the SCP (i.e. there is no market rate factor applied inside SCP even though there is evidence to support that). For outside SCP, the Market Factor is applied and essentially boils down to $1.25 * (MR - CR)^{2.5}$ in a rising rate environment and is added to the base lapse rate. Since this adjustment is additive, the Market Rate impact will be smaller for larger base lapse rates and larger for smaller base lapse rates. We have provided an extreme market rate spread example below based on our current understanding. The resulting adjustment of +12.35% seems small relative to a base lapse rate of 40%, but for blocks with lower base lapse rates (e.g. GLWB business) this adjustment seems too large.
 - MR = 7%
 - CR = 4%
 - BF = 0.5%
 - $1.25 * (7 - 4 - 0.5)^{2.5}/100 = 12.35\%$
 - Shock Lapse = $\max(90\%, 40\% \text{ (base rate)} + 12.35\%) = 52.35\%$
- The Total Lapse formula includes an ITM Factor but there are specific GLWB lapse tables that include ITM lapse rates. What is this ITM Factor in this formula used for?
- The lapse rates look to be incorrect in the 80 and above bucket in Table 6.8 Base Lapse Rates for Indexed and Fixed Annuities with GLWB after Utilization. ACLI recommends this be reviewed for accuracy.

Income Rider (IR) Utilization Assumption –

- Instead of defining cumulative utilization rates by attained age group, ACLI believes it would be better to define them by duration and issue age group. We would request clarification on how the prescribed utilization table is meant to be applied.

Income Rider (IR) Business -

- The base shock (i.e. at expiry) and post shock (i.e. after expiry) lapse rates for non-utilized IR policies that are Out of the Money are unreasonably high relative to what we've seen for historical experience. This is not supported by Milliman data and produces extreme swings in lapse rates. One suggested approach is to change this static factor to some function to smooth out the lapse rates before entering ITM status.

Dynamic Lapse Formula -

- Given the structure of the Market Factor component, we feel there's the potential for lapse rates for business outside of the surrender charge period to be too sensitive to changes in interest rates.
 - The only thing limiting the size of this adjustment is the 90% max lapse rate assumption, so in extreme interest rates scenarios it's possible for lapse rates to become extremely elevated regardless of product type.
- We generally like the structure of the dynamic lapse formula but think the max lapse rate assumption should be defined at a more granular level to limit the size of the adjustment based on product type.

Mortality Table –

- For the mortality formula below, tables are provided for the base q and F . However, these are ANB tables; it was suggested applying the SOA method to convert to ALB, however this could result in a different answer depending when you convert (the base or the final number). We suggest either clarifying the timing of conversion or providing both the ALB and ANB factors.

- ii. **For Individual Annuity contracts within the Payout Annuity Reserving Category other than Structured Settlement Contracts, the mortality rate for a contract holder age x in year $(2012 + n)$ shall be calculated using the following formula, where q_x denotes mortality from the 2012 IAM Basic Mortality Table multiplied by the appropriate factor (F_x) from Table 6.3 and $G2_x$ denotes mortality improvement from Projection Scale G2:**

$$q_x^{2012+n} = q_x^{2012} (1 - G2_x)^n * F_x$$

Thank you once again for the consideration of our feedback and we look forward to continuing conversations at the Subgroup level as we move toward finalizing the new VM-22.

Best,

 Colin Masterson

cc: Amy Fitzpatrick, NAIC