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Rachel Hemphill,

Chair, NAIC Life Actuarial (A) Task Force (LATF)

Mike Yanacheak,

Chair, NAIC Generator of Economic Scenarios (GOES) (E/A) Subgroup

Re: Re-Exposure of Amendment Proposal Form (APF) 2025-04

Dear Chair Hemphill and Chair Yanacheak,

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the April re-exposure of APF 2025-04, which aims to incorporate the new GOES into the Valuation Manual (VM). ACLI would also like to reiterate our appreciation for the ongoing dialogue and collaboration between regulators and industry as we move towards implementation of the Generator.

Regarding the current exposure itself, ACLI has the following feedback:

Phase-In -

- Stochastic calculations are computationally intense, and maintaining two sets of calculations under the weighted-average approach likely will not produce much value. We would request the regulators consider allowing simplifications of the calculation if it does not materially downward bias in the reserve.
- We suggest the following edits to the weighted-average approach for VM-20 and VM-21:
 - a. Compute SZ = the reserve as of the current valuation date, following the economic scenario generator requirements outlined in VM-20, Appendix 1, applicable in the **2026** NAIC *Valuation Manual* **as of the current valuation date** for all business in-force on the valuation date.

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b. Separately, compute TZ = the reserve as of the current valuation date, following the economic scenario generator requirements outlined in VM-20, Appendix 1, applicable in the 2025 NAIC *Valuation Manual* for the same in-force contracts used to compute SZ. All other requirements should be consistent with the ~~2026~~ NAIC *Valuation Manual* as of the current valuation date.

Other Topics -

- VM-20, Appendix 1, Section D: There isn't any explicit setting of the MRP, so it is unclear how the reader can relate the initial PEW range translated to the final MRP. To avoid confusion, we suggest striking the following sentence: "The initial mean reversion benchmarks ranges were developed based on a Percentiles Exponentially Weighted (PEW) approach with a 15-year half-life and a data period of 1953.05 to 2021.12."
- Deterministic Scenario Description: The description of Scenario 12 in VM-20 Appendix 1 Section E will need to be updated given the decision to implement the ACLI proposal for the deterministic scenario. We recommend the following language for inclusion:
 - For interest rates, there are uniform downward shocks each month for 20 years such that interest rate levels are approximately at the one standard deviation down level (16%) from the stochastic distribution of interest rates at the end of year 20. After year 20, very small positive uniform shocks are applied to allow interest rates to approximately revert to their long-term median levels. We note that these small positive shocks are to offset the slight downward bias that results when applying this methodology to Conning's model.
 - Equity prices are selected such that cumulative total return gradually reaches a one standard deviation down level (16%) at the end of year 20. After year 20, equity price returns are selected to be approximately neutral (i.e. consistent with "zero shocks").
- VM-31, Section 3.E.3 Changes in Reserve Amounts: The table shows the components for the amortization approach, but not the weighted-average approach.
 - For the amortization approach, we would suggest disclosing (1) the day 1 impact, (2) the remaining phase-in months, and (3) the outstanding phased-in amounts.
 - For the weighted-average approach, we would suggest disclosing (1) the GOES calculation, (2) the AIRG calculation, and (3) the remaining phase-in months.
- Non-Prescribed Generators: Similar to the provisions that exist in VM-21 and VM-22, ACLI proposes that additional language be added in (1) VM-20 Section 7.G.2.a, (2) VM-20, Appendix 1: Additional Description of Economic Scenarios, and (3) (within the APF's Appendix 2: SET Updates) VM-31, Section 3.D.11.n. to permit the use of proprietary generators. This option can be used by the company as long as they demonstrate that the use of the proprietary generator does not result in reserves that are materially lower than those that would have been calculated under the prescribed generator. The specific language suggestions can be found below in Appendix 1.

Thank you once again for the consideration of our comments and we look forward to additional discussion on this APF at a future session of the GOES (E/A) Subgroup and LATF.

Sincerely,

Handwritten signature of Colin Masterson in blue ink.

cc: Scott O'Neal, NAIC

Appendix 1 -

VM-20 Section 7.G.2.a:

3. Non-Prescribed Generators

If a company uses a proprietary generator to develop stochastic economic scenario for the purposes of calculating the SR under Section 5, Scenario 12 for calculating DR under Section 4, or SERT scenarios for exclusion testing under Section 6, the company shall demonstrate that the resulting scenarios meet the requirements described in Appendix 1.

VM-20, Appendix 1: Additional Description of Economic Scenarios:

E. Use of Non-Prescribed Scenario Generators

At the option of the company, interest rates and total investment return scenarios for equity assets may be generated in part or in full using non-prescribed scenario generators in lieu of the prescribed economic generator referred to in Appendix 1, provided that the scenarios thus generated do not result in a reserve that is materially lower than the reserve produced from the use of the scenarios originating from the prescribed generator referred to in Appendix 1. For the purpose of demonstrating compliance with this standard, a company may rely on only the values from the DR and SR calculations and exclude impacts from the NPR.

APF Appendix 2: SET Updates:

VM-31 Section 3.D.11.n

n. Non-Prescribed Scenario Generator - if using non-prescribed scenario generators in lieu of the prescribed generator, either in part or in full, a summary including:

- i. Description of the models used for interest rates, fixed income returns, equity returns, and discussion of model calibration.
- ii. If vendor software is used, identification of vendor, software name, and version number.
- iii. Identification of whether the scenario generators were developed for VM-20 purposes, or adopted from another purpose such as pricing or asset adequacy testing. If the latter, discussion of any adjustments made for VM-20 purposes, and rationale for the adjustments.
- iv. A statement that the interest rate and equity scenarios used to determine reserves are available upon request in an electronic spreadsheet format to facilitate any regulatory review.
- v. Documentation that scenarios generated do not result in a DR or SR that is materially lower than the DR or SR resulting from scenarios generated from the prescribed generator. Documentation that the results from SERT would not be materially different from results generated from the prescribed generator.

- vi. Discussion of any correlation that exists in the development of interest rate and equity scenarios.