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

Re: The 2025 Re-Exposure of APF 2023-10 (VM-20 Stochastic Reserve Discount Rate)

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit additional feedback on APF 2023-10, which proposes changes to the Discount Rate used in VM-20 Stochastic Reserves. We would also like to again thank the American Academy of Actuaries for developing the original proposal in 2023, as well as regulators and NAIC staff for delaying further consideration of this item until the adoption of the new Generator of Economic Scenarios (GOES).

ACLI generally supports the adoption of this APF. However, we are concerned that certain drafting changes intended to improve clarity and consistency with VM-21 may unintentionally introduce inconsistencies between the present value method and the direct iteration method, potentially resulting in divergent reserve outcomes. We believe these issues warrant further consideration to avoid unintended consequences.

The authors note in APF cover page item #4 ("*State the reason for the proposed amendment?*") that they "followed the general approach for VM-21 but didn't replicate the language exactly to clarify inconsistent wording in VM-21." Consistency across the Valuation Manual chapters is a position we support as industry. In this case, the amendment may create unintended consequences as some of the language not included is what aligns the present value method with the direct iteration method. It is the restriction of the additional asset portfolio to be a specific selection of assets that exactly offsets the deficiency. i.e., the same assets you'd include in the projection if you were doing direct iteration. As drafted, the additional assets could be a different amount, which could result in different reserve calculations.

To address this issue, ACLI recommends that the APF be revised to explicitly constrain the additional asset portfolio used in the present value method to align with the assets that would be included under the direct iteration method, consistent with VM-21. This approach would preserve the intended equivalence of the two methods and avoid unintended variability in reserve levels.

In addition, if the additional asset portfolio is allowed to vary by scenario, it is likely that the assumed portfolio would differ across scenarios. In that case, ACLI is concerned that the associated VM-31

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

disclosures could be interpreted to require scenario-specific descriptions of the assumed asset portfolio. Such disclosures would add operational complexity and volume without materially improving transparency or regulatory insight, particularly where the differences arise mechanically rather than from management intent. To avoid this outcome, ACLI recommends that any required VM-31 disclosures related to the additional asset portfolio be qualitative in nature.

Finally, we note that similar interpretive issues have already been addressed in the context of VM-21, and many companies have experience applying that guidance. In particular, VM-21 Practice Note Q3.3 discusses the alignment of present value and direct iteration approaches and could serve as a useful reference. Aligning with this existing guidance in the APF could promote consistent interpretation and ease implementation, especially for VM-20 filers encountering these issues for the first time.

In summary, ACLI supports APF 2023-10 but encourages targeted revisions to preserve consistency with VM-21 and to avoid unintended reserve calculation and disclosure consequences. We appreciate your consideration of these comments and look forward to continued discussion of this proposal at a future LATF session.

Sincerely,

A handwritten signature in cursive script that reads "B Banfuli Colin Masterson". The signature is written in black ink on a white background.

cc: Scott O'Neal, NAIC