

DISCUSSION AND FRAMEWORK CONSIDERATIONS MODIFYING VM-22 INVESTMENT GUARDRAILS PENSION RISK TRANSFER

DECEMBER 7, 2025

BACKGROUND

- Corporate pension market is estimated to be \$3.7 trillion
- Single group annuity contracts can be in the \$ billions
- Insures the payment of pensions of US retirees
- Over \$200 billion of pension risks transferred to group annuities over last five years
- Market volume has tripled from 2015 to 2024
- Several large life insurers make up most of the PRT market, all with offshore reinsurance capabilities
- Significant competition requiring disciplined pricing with sensitivity to investment assumptions in managing transferred plan assets
- Desire to maintain direct US regulatory oversight within statutory framework

WHY IS PRT DIFFERENT?

- Only large and sophisticated companies are capable of sourcing significant amounts of capital required for this business, providing sophisticated asset management capabilities, and administering the complex recordkeeping, financial reporting and contractual obligations (e.g., retiree payments) required for this business.
- DOL fiduciary standard imposed on Plan Sponsors in choosing an insurer. When a group annuity is chosen by a pension sponsor, significant consideration is given to the investment capabilities and guidelines of the insurer.
- Investment guidelines are already subject to regulatory review and approval in many states as part of a separate account's plan of operations.
- Group annuities supporting PRT business generally have no optionality (i.e., no cash value and the annuity payment schedule cannot be modified).

POTENTIAL SOLUTION - PROPOSAL

- Modify VM-22 investment guardrails only for group annuities supporting pension risk transfer (PRT) business to better reflect actual investments, while maintaining an appropriate level of conservatism.

Guardrail – Prescribed spreads and defaults in VM-20 Section 9.F for 100% PBR credit rating 9 (Baa2/BBB) plus a spread increase of 0.50% to account for illiquidity spreads. VM-31 disclosures required.

FRAMEWORK CONSIDERATIONS

Question: Do LATF members support the general direction to modify the reinvestment guardrail for PRT to some extent?

Considerations:

- Unique nature of PRT
- Additional layers of oversight and disclosure
- Trade-off to potentially limit the use of offshore reinsurance
- Other

FRAMEWORK CONSIDERATIONS

The current proposal utilizes different spread, default, and investment strategy assumptions than other products as described in Sections 4.D.3 and 4.D.4. Assumptions are required to be disclosed in VM-31.

Question: Should company assumptions for spreads and defaults be used, or should a liquidity spread be considered, as is done for the reinvestment guardrail?

Considerations:

- Maintain PBR principles
- Liquidity spread applied to prescribed spreads and default assumptions may not be lower than company's best estimates.
- Other

FRAMEWORK CONSIDERATIONS

Question: Should the reinvestment guardrail be based on BBB plus a liquidity spread, e.g., the NJ proposal of BBB + 50 bp, or some other floor?

Considerations:

- Why BBB? – i.e., floor above investment grade
- Alternatives – e.g., maintain current investment and increase liquidity spread
- Other

FRAMEWORK CONSIDERATIONS

Question: What information should be disclosed in VM-31? The proposal currently reflects the portion of company spread assumptions attributable to illiquidity risk and the default assumptions.

- f. Spreads – Description of the spread assumptions, including the portion of the spread assumptions attributable to illiquidity and other types of risk, and the interest rate swap spread assumptions
- g. Defaults – Description of the default assumptions, including defaults by asset type, quality, and tenor

Considerations:

- Other

FRAMEWORK CONSIDERATIONS

Question: What other concerns or considerations should be addressed?

Considerations:

- Should Commissioner approval be needed?
- Review criteria of domiciled state and disclosure/discussion with other states
- Other

FRAMEWORK CONSIDERATIONS

Next Steps: What to expose and for how long?

- Framework Considerations
- Current APF
- Revised APF
- Other