



July 16, 2026

Ben Slutsker
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners

Re: C3 Field Test Specifications—Revisions

Dear Chair Slutsker:

On behalf of the C3 Subcommittee (Subcommittee) of the American Academy of Actuaries,¹ we appreciate the opportunity to share the attached proposed revisions to the C3 Field Test Specifications. These revisions reflect the discussions of the NAIC C3 Alignment Drafting Group (the Drafting Group).

Our materials include a comparison document, and we note the following key changes:

- Removal of the initial cover questions
- Changed timing of Field Test (FT) to be until October
- Allow for 12/31 or 09/30 modeling valuation dates, per company practices
- Removed referenced to C3P2 methodology in section D and simply refer to CTE 90, as CTE 90 is the likely target, but FT will serve to provide data points for further calibration
- Added granularity specifications in section G
- Created a new set of attribution runs which were agreed upon with the Drafting Group, in Section H and in tabular form
- Reworded Appendix I to focus on equity modeling option 1 (previously provided two options) and called out both equity and equity-like assets for this modeling approach
- Adjusted the timeline, per the comment above, in Appendix II

We appreciate the ongoing collaboration with the Working Group on this issue and look forward to continuing discussions. If you have any questions or would like to discuss these revisions further, please contact Fabienne Amisial, the Academy's life policy project manager (amisial@actuary.org).

Sincerely,

Rick Hayes, MAAA, ASA, CERA
Chairperson, C3 Subcommittee

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.



American Academy of Actuaries

C3 Field Test Specs Draft

Section I: Field Study Overview

A. INTRODUCTION

The Academy's C3 Subcommittee was tasked with considering changes to the C3 framework given the implementation of Principle Based Reserving for VM-22 and the new Generator of Economic Scenarios (GOES) scenarios, as well as reviewing ways to harmonize the methodology with the C3 Phase 2 framework. Details of the framework are included in the [\[appendix\]](#).

The goals of the field test are as follows:

- Assess the impacts of using an Asset-Based metric vs. a Surplus-Based metric
- Add Equity Linked Annuities to C3 Phase 1
- Assess the impact of a prescribed equity modeling approach under C3 Phase 1
- Enable a discussion about the consideration of the appropriate discount rate
- Contemplate the impact of aggregation of products included in C3 Phase 1
- [Supplemental] Evaluate the impact of a new prescribed default assumption, and quantify a possible RBC credit
- [Supplemental] Evaluate the C3 metric under different starting economic conditions

The analysis above will be performed using GOES scenario sets and may be reviewed under different economic conditions, such as different starting yield curves.

Supplemental information may be requested as part of this field test to help understand the field test reserve liability characteristics, aligning with LR027 definitions. A key goal is to confirm that the new methodology results in relatively higher/lower C3 capital requirements for companies with relatively higher/lower interest rate exposure.

B. COMMUNICATION OF FIELD TEST RESULTS

Participants of the field test will schedule confidential, regulator-only meetings where the results of their testing will be shared with regulators. NAIC staff will reach out to companies to schedule these meetings.

NAIC staff will communicate high-level observations and themes raised by participants on drivers of results. Communication will include specific coverage of key observations related to the listed goals of the field test as well as any other items that may be significant. Where applicable, NAIC staff will include comparisons to NAIC's model office testing.

NAIC Staff Contact: [\[Include name/email on who to contact at NAIC\]](#)

C. TIMELINE

The field test will run from [\[September to October\]](#) 2026. During the field test, regular Q&A sessions will be held with participants to address questions that may arise. Field test participants will present results in confidential regulator-only sessions starting in [\[November\]](#). A detailed timeline is included in the Appendix II.

The NAIC's model office analysis will be shared in public meetings at Life Risk-Based Capital (E) Working Group by the end of 2026, alongside key observations shared by field test participants.

The proposed framework is intended to be effective for year-end 2027.

Section II: Field Test Scenarios and Assumption Specifications

A. PRODUCTS COVERED

Companies should include all products that are currently subject to C3 Phase 1, which includes single premium life and annuity products. Equity Linked Annuities, such as Fixed Indexed Annuities (FIA), will be added to the scope for testing.

B. VALUATION DATE

Field test will be based on a valuation date of 12/31/2025 or 9/30/2025 depending on company practice.

C. ECONOMIC SCENARIOS

Companies should use the prescribed field test scenario sets that will be provided by Conning. Conning will provide the scenario subsets that will be used for testing.

For companies that use a proprietary generator, results are requested under the prescribed generator instead for comparability. If fewer scenarios are used, please specify.

D. METRIC DEFINITIONS

For Surplus-based metrics, utilize the C3 Phase 1 prevailing proposed method as of the start of the Field Study. At the writing of this document, that would be the proposed C3 Phase 1 instructions as of [\[02/12/2026\]](#). This would include applying updated weights to specific scenario results.

For Asset-based metrics, floor the scenario result at the Cash Surrender Value and utilize CTE (90).

Reserves underlying the metrics will reflect reserve methodologies as of year-end 2025, not the newly approved VM-22 in the 2026 Valuation Manual.

E. DISCOUNTING

Companies should continue to use the current approach that is consistent with their reported capital metrics or use the prevailing metric proposed at the time of the Field Study. This could include discounting at 105% of the after-tax 1- to 10-year U.S. treasury rates for C3 Phase 1, or discounting at the net asset earned rate (NAER) on additional assets or using the Direct Iteration method for C3 Phase 2.

If any approach used for field test scenarios differs from what is reflected in the Baseline calculations, companies should disclose this and the corresponding impact of the change in approach.

F. OTHER ASSUMPTIONS

For other assumptions (e.g., reinvestment yields, liability assumptions, projection period), use the same assumptions as in the models currently used for CFT or PBR for the applicable assets and liabilities.

G. GRANULARITY

If available and practical, companies should provide results at the product and/or LOB level, in addition to aggregate level. Qualitative impacts are acceptable but at a minimum should identify the direction of impact by product. Splits should include payout vs deferred annuities, with and without guaranteed living benefits (GLBs), and life products.

Companies are not expected to submit results in greater granularity than what is already part of normal procedures. This request envisions that many companies aggregate multiple models representing different products or blocks. As a result, we expect that many companies can provide field test results at a less-aggregated step of the process, in addition to the fully aggregated step.

Companies should disclose key CTE levels indicated in run descriptions but will also provide individual scenario results and whether calculations are performed pre or post-tax.

H. FIELD TEST SCENARIOS

The field test will be quantifying the following:

- Use of an asset-based metric on C3 Phase 1, which would be consistent with C3 Phase 2
- The addition of Equity-Linked Annuities, such as FIA, to the scope of C3 Phase 1
- Use of prescribed asset default costs on C3 Phase 1, consistent with VM-20 Section 9.F
- Use of a prescribed equity modeling approach for C3 Phase 1
- Impact of discounting at NAER or direct iteration

The following results are requested:

Provide the statutory reserve, capital, and the sum of reserve and capital for each sensitivity. The Baseline run results will be compared to the Reported C3 Phase 1 results provided in the Supplemental Information.

- Baseline: Reported C3 Phase 1 Results as of Year End 2025
 - Based on AIRG interest rate scenarios, with Surplus-Based metric discounted at 105% of the after-tax 1-year U.S. treasury rates.
 - Company default cost assumptions from current C3 Phase 1 methodology
 - Does not include Equity-Linked Annuities, such as FIA.
- Unfloored Baseline
 - Unfloored baseline projection and remove any topside adjustments
 - All future runs to be performed without factor-based flooring or adjustments
- Sensitivity 0: Impact of GOES
 - Same as Unfloored Baseline, but uses GOES scenarios
 - Does not include Equity-Linked Annuities, such as FIA.
 - *Compare to Unfloored Baseline*
- Sensitivity 1: 2026 C3P1
 - Same as Sensitivity 0, but discounted at 105% of the after-tax 10-year U.S. treasury rates.
 - Does not include Equity-Linked Annuities, such as FIA.
 - *Compare to Sensitivity 0*
- Sensitivity 2: Impact of Asset-Based Metric
 - Based on Sensitivity 1, but application of the Asset-Based Metric
 - Does not include Equity-Linked Annuities, such as FIA.
 - *Compare to Sensitivity 1*
- Sensitivity 3 (Optional): Impact of FIA
 - Based on Sensitivity 2, but includes FIA blocks of business (if applicable)
 - *Compare to Sensitivity 2*
- Sensitivity 4: Impact of VM-20 Default Assumption
 - Based on prior run, but uses prescribed default assumptions as specified under VM-20 Section 9.F.
 - *Compare to Sensitivity 2 if no FIA, otherwise Sensitivity 3*
- Sensitivity 5 (Optional): Impact of Prescribed Equity Modeling Approach
 - Based on Sensitivity 2 or 3, but uses the Academy's prescribed equity modeling approach as described [in Appendix I.](#)
 - *Compare to Sensitivity 2 if no FIA, otherwise Sensitivity 3*

- *Sensitivity 6: Impact of Prescribed Equity Modeling Approach and VM-20 Defaults*
 - Based on Sensitivity 4, but uses the Academy’s prescribed equity modeling approach as described [in Appendix I](#).
 - *Compare to Sensitivity 4*

- *Sensitivity 7: Impact of NAER Discounting or Direct Iteration Method*
 - Based on Sensitivity 6, but discounting to be based on NAER or the Direct Iteration Method.
 - *Compare to Sensitivity 6*

- *Sensitivity 8: Impact of Initial Spread and Reinvestment Guardrails*
 - Based on Sensitivity 7, but incorporates VM-20 / VM-22 guardrails (2027 Valuation Manual) on reinvestment strategies and net asset spreads.
 - *Compare to Sensitivity 7*

- *Sensitivity 9 (Optional): Impact of VM-22 Retroactivity*
 - Based on Sensitivity 8, but reflects VM-22 retroactivity.
 - Disclose any exclusion anticipated to be converted.
 - *Compare to Sensitivity 8*

- *Sensitivity 10 (Optional): Impact of High Interest Rate Environment*
 - Based on Sensitivity 8, but use GOES scenarios as of 10/31/1989 economic environment (to be provided)
 - *Compare to Sensitivity 8*

- *Sensitivity 11 (Optional): Impact of Low Interest Rate Environment*
 - Based on Sensitivity 8, but use GOES scenarios as of 03/09/2020 economic environment (to be provided)
 - *Compare to Sensitivity 8*

- *Sensitivity 12: Impact of Stochastic Equity*
 - Based on Sensitivity 8, but do not apply the Academy’s prescribed equity modeling approach for equity or equity-like general account assets, yet maintain the modeling approach for hedges (index credit or otherwise).
 - *Compare to Sensitivity 8*

In tabular form, please see the below requested or optional runs. Highlighted shows the change in each sensitivity.

Proposed	Requested or Optional	Surplus or Asset Based	FIA	Interest Rates	Equity	Defaults	Discounting	Retroactive Application
Baseline (2025 C3P1)	Requested	Surplus	No	AIRG	Company	Company	105% of 1-yr UST	No
Unfloored without topside 2025 C3P1	Requested	Surplus	No	AIRG	Company	Company	105% of 1-yr UST	No
Sens 0	Requested	Surplus	No	GOES	Company	Company	105% of 1-yr UST	No
Sens 1 (2026 C3P1)	Requested	Surplus	No	GOES	Company	Company	105% of 10-yr UST	No
Sens 2	Requested	Asset	No	GOES	Company	Company	105% of 10-yr UST	No
Sens 3	Optional	Asset	Yes	GOES	Company	Company	105% of 10-yr UST	No
Sens 4	Requested	Asset	If in Sens 3	GOES	Company	VM-20	105% of 10-yr UST	No
Sens 5	Optional	Asset	If in Sens 3	GOES	Academy's prescribed equity modeling approach	Company	105% of 10-yr UST	No
Sens 6	Requested	Asset	If in Sens 3	GOES	Academy's prescribed equity modeling approach	VM-20	105% of 10-yr UST	No
Sens 7	Requested	Asset	If in Sens 3	GOES	Academy's prescribed equity modeling approach	VM-20	NAER or Direct Iteration w/o guardrail	No
Sens 8	Requested	Asset	If in Sens 3	GOES	Academy's prescribed equity modeling approach	VM-20 + initial asset spread caps	NAER or Direct Iteration w guardrail	No
Sens 9	Optional* (strongly encouraged)	Asset	If in Sens 3	GOES	Academy's prescribed equity modeling approach	VM-20 + initial asset spread caps	NAER or Direct Iteration w guardrail	Yes
Sens 10	Optional	Asset	If in Sens 3	GOES + 10/31/89 UST Yield Curve (shock up)	Academy's prescribed equity modeling approach	VM-20 + initial asset spread caps	NAER or Direct Iteration w guardrail	No

Sens 11	Optional	Asset	if in Sens 3	GOES + 03/09/20 UST Yield Curve (shock down)	Academy's prescribed equity modeling approach	VM-20 + initial asset spread caps	NAER or Direct Iteration w guardrail	No
Sens 12	Requested	Asset	if in Sens 3	GOES	Full stochastic for GA equity or equity-like assets	VM-20 + initial asset spread caps	NAER or Direct Iteration w guardrail	No

Section III: Supplemental Information

Additional analytics are requested to help explain the field test results to ensure the methodology reasonably measures C3 risks. These analytics will be compared along with the field test results. The analytics requested include:

A. CURRENT CAPITAL RESULTS

Please provide your reported C3 Phase 1 result amount as of the valuation date as well as the modeled reserves by High/Medium/Low Risk categories, and the factor-based result. If your current C3 Phase 1 result is floored, please calculate the unfloored amount. These results will be used to compare against the new framework results to help the NAIC and Domestic Regulators to understand the impact of the new framework.

B. LIABILITY ANALYTICS

Average Issue Year and Statutory Reserves net of reinsurance.

VERSION 1

Low Risk Category

- Annuity Reserve with Fair Value Adjustment (excluding unitized separate accounts)
- Annuity Reserve not Withdrawable (excluding structured settlements)
- Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity
- Single Premium Life Insurance Reserves

Medium Risk Category

- Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More
- Exhibit 7 Reserve not Included Elsewhere
- Structured Settlements
- Additional Actuarial Reserves for Annuities and Single Premium Life—Asset/Liability Analysis

High Risk Category

- Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)
- Debt with GIC-like Characteristics (see Appendix 1 & 1b Instructions)

Synthetic GICs

VERSION 2

- Retail Life
- BOLI/COLI
- Variable Annuities
- Indexed Linked Variable Annuities (ILVA, RILA)

- Deferred Annuities (SPDA, FPDA), Multi-Year Guarantee Annuities (MYGA)
 - With and without Guaranteed Life Benefits (GLB)
 - With and without Market Value Adjustments (MVA)
- Income Annuities—Single Premium Immediate Annuities (SPIA), Deferred Income Annuities (DIA)
- Fixed Indexed Annuities (FIA)
 - With and without GLB
 - With and without MVA
- Structured Settlements Contracts (SSC)
- Pension Risk Transfer (PRT)
- Guaranteed Investment Contracts (GICs)/Synthetic GICs
- Stable Value Contracts
- Funding Agreements
- Other (please specify)

Appendix I: Stochastic Equity Levelized Return Illustration

In order to estimate the impact of the proposed Academy equity scenarios, the Academy has proposed the following prescribed methodology.

For developing the greatest present value of accumulated deficiencies (GPVAD) results that include equity linked assets and liabilities, use the following methodologies depending on the type of equity exposure.

Type of Equity Exposure	Proposal
Equity instruments to hedge predictive liabilities cash flows (e.g., FIA index hedge or indexed GIC)	• Exclude stochastic equity risk from C3P1. • Assume hedges are effective and reflect an index credit hedge margin in the capital for additional conservatism (same guidance as VM-22 section 4.A.4.b.i).
Equity instruments to hedge the unpredictable liability cash flows (e.g., FIA with GLWB)	• Model stochastic equity but allow hedge modeling simplification. • Unlike VA, the liability cash flows are mostly exposed to the policyholder behavior assumption risk than equity risk. • Optional credit adjustment to account for double counting of risk reflected in the C1 equity risk charge and the C3 calculation.
Equity or equity-like instruments on general account assets (e.g., equities backing long-duration contracts such as SSC)	• Develop the prudent estimate levelized return to avoid exacerbating capital requirement. • The prescribed levelized equity return accrues to the gross wealth factor (GWF) at approximately the 95th percentile level for the projection years that reflect the average asset holding period and then a new levelized return is calculated for the remaining years to accrue to the GWF at the same percentile level at projection year 30, as an example. • A simple non-discounted, time-weighted annual liability cashflow calculation would determine a proxy for the appropriate asset holding period. • The 95th percentile level is approximate to CTE90 under current C-3 Phase 1.

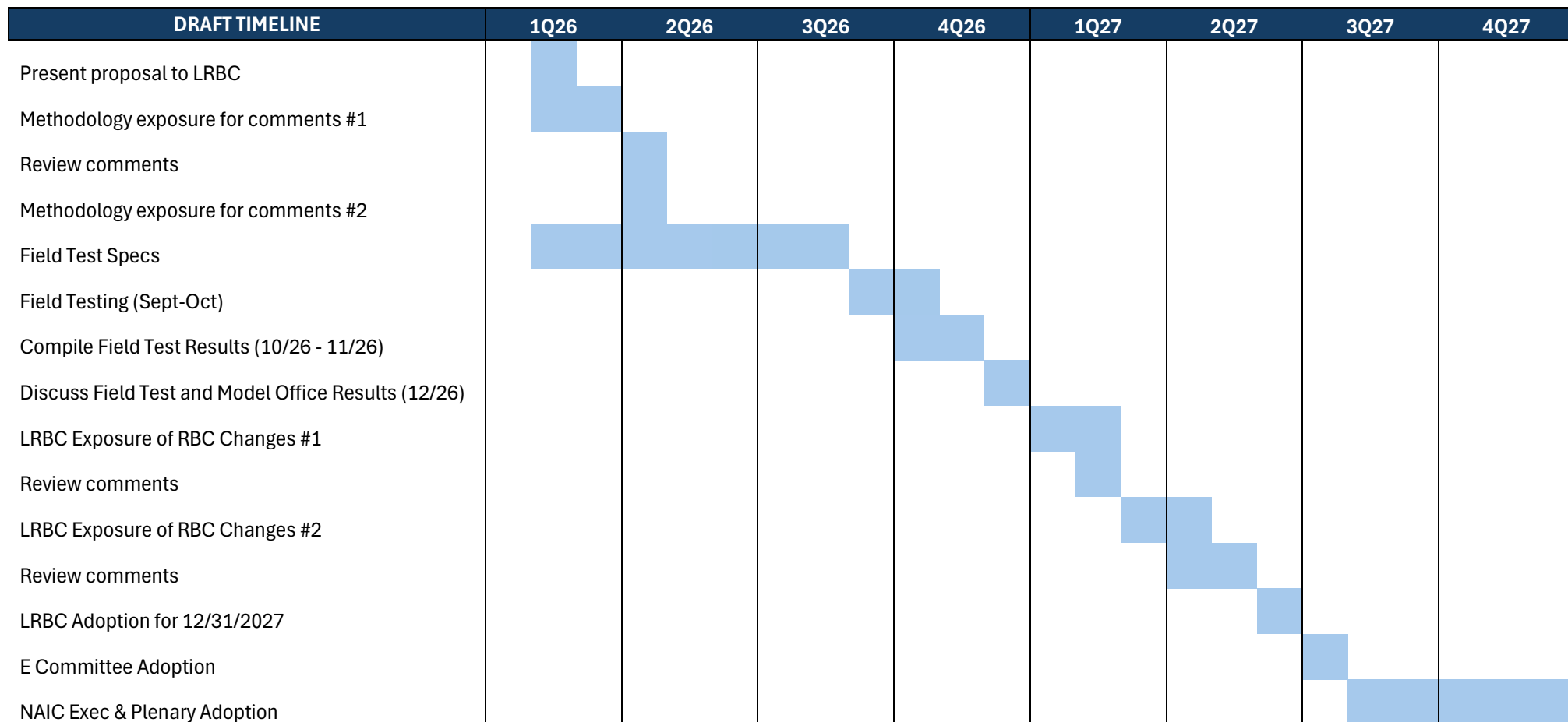
Based on the 12/31/2025 GOES scenarios, the S&P 500 index Gross Wealth Factors are shown in the table below. At the 95th percentile and for an average asset holding period of 10 years, the annualized levelized return is -1% for the initial 10 years followed by a 1.5% annualized return for years 11 through 30.

S&P 500	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.41	0.24	0.06	0.14	0.14
1.0%	0.70	0.56	0.56	0.79	1.08
2.5%	0.77	0.68	0.73	1.05	1.60
5.0%	0.82	0.79	0.90	1.34	2.19
10.0%	0.88	0.92	1.13	1.79	3.15
25.0%	0.98	1.19	1.56	2.82	5.32
50.0%	1.09	1.49	2.16	4.52	9.26
75.0%	1.20	1.82	2.88	6.84	15.44
90.0%	1.29	2.15	3.67	9.73	24.42
95.0%	1.35	2.37	4.21	12.10	31.70
97.5%	1.40	2.58	4.74	14.33	40.33
99.0%	1.46	2.82	5.54	18.33	51.36
Max	1.84	4.40	10.58	42.77	214.88

Levelized Rate for 10 year holding period = -
1% = $(0.9)^{(1/10)} - 1$

Levelized Rate for remaining 20 years holding period = 1.5% =
 $(2.19/0.9)^{(1/20)} - 1$

Appendix II: Timeline



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