MEETING MATERIALS PACKET

LIFE ACTUARIAL (A) TASK FORCE

November 13-14, 2026

NAIC FALL NATIONAL MEETING

Draft date: 11/9/26

2026 Fall National Meeting
Dallas, Texas

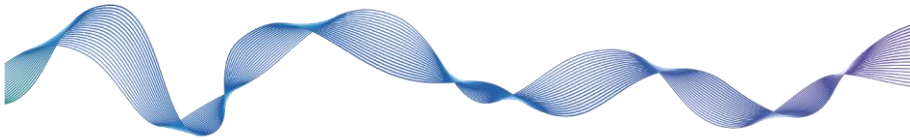
LIFE ACTUARIAL (A) TASK FORCE
Friday, November 13, 2026
8:00 a.m. – 4:30 p.m.
Convention Center—Texas C123—Level 3

Saturday, November 14, 2026
8:00 – 10:00 a.m.
Convention Center—Texas C123—Level 3

ROLL CALL

NAIC Member	Representative	State/Territory
Amanda Crawford, Chair	Rachel Hemphill	Texas
Scott A. White, Vice Chair	Craig Chupp	Virginia
Mark Fowler	Sanjeev Chaudhuri	Alabama
Heather Carpenter	Sharon Comstock	Alaska
Peter M. Fuimaono	Elizabeth Perri	American Samoa
Ricardo Lara	Ahmad Kamil	California
Joshua Hershman	Wanchin Chou	Connecticut
Ann Gillespie	Matt Cheung	Illinois
Holly W. Lambert	Scott Shover	Indiana
Doug Ommen	Mike Yanacheak	Iowa
Vicki Schmidt	Nicole Boyd	Kansas
Marie Grant	Nour Benchaaboun	Maryland
Julia Dreier	Fred Andersen	Minnesota
Angela L. Nelson	William Leung	Missouri
Eric Dunning	Michael Muldoon	Nebraska
Ned Gaines	Maile Campbell	Nevada
Susan Ochs	David Wolf	New Jersey
Kaitlin Asrow	William B. Carmello	New York
Remedio C. Mafnas	Maryann Borja-Arriola	Northern Mariana Islands
Judith L. French	Matt Elston	Ohio
Glen Mulready	Andy Schallhorn	Oklahoma
TK Keen	Tashia Sizemore	Oregon
Michael Humphreys	Steve Boston	Pennsylvania
Carter Lawrence	Eric Scott	Tennessee
Jon Pike	Tomasz Serbinowski	Utah

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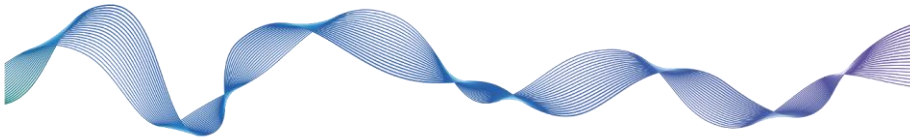
NAIC Committee Support: Scott O'Neal/Amy Fitzpatrick

AGENDA

Friday, November 13, 2026

8:30 – 8:35 a.m.	1. Consider Adoption of its Minutes and Written Subgroup Reports —*Rachel Hemphill (TX)*
8:35 – 9:35 a.m.	2. Discuss *Valuation Manual* Spread and Defaults Methodology—*NAIC Committee Support* A. Discuss Non-Monotonic Current Spreads Issue B. Discuss Methodology Review and Applicability to Private Assets
9:35 – 10:10 a.m.	3. Discuss the Work of the Generator of Economic Scenarios (GOES) (E/A) Subgroup—*Mike Yanacheak (IA)* A. Consider Adoption of the Revisions to the GOES Model Governance Framework B. Consider Adoption of the Report of the GOES (E/A) Subgroup
10:10 – 10:30 a.m.	Break
10:30 – 11:00 a.m	4. Consider Exposure of Nonforfeiture Actuarial Guideline—*Cody Tyler (CA)*
11:00 – 11:30 a.m.	5. Consider Exposure of APF 2026-10 Canadian and Chinese Mortality Tables—*Rachel Hemphill (TX)*
11:30 – 12:00 p.m.	6. Discuss Comments Received on *Statement of Statutory Accounting Principles (SSAP) No. 109—Hedge Effectiveness* Documentation Requirements—*Rachel Hemphill (TX)*
12:00 – 1:30 p.m.	Lunch
1:30 – 2:30 p.m.	7. Discuss the Work of the Valuation Manual (VM)-22 (A) Subgroup —*Ben Slutsker (MN)* A. Discuss Comments on Amendment Proposal Form (APF) 2025-19 B. Discuss Comments on VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, Inforce Application
2:30 – 2:40 p.m.	8. Hear an Update on the Life Risk-Based Capital Working Group's Offshore Reinsurance—*Ben Slutsker (MN)*

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2:40 – 3:00 p.m.	Break
3:00 – 3:30 p.m.	9. Discuss Comments on the Draft Referral to the Statutory Accounting Principles (E) Working Group on Reinsurance Collateral—*Rachel Hemphill (TX)*
3:30 – 3:45 p.m.	10. Receive an Update on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) Reports—*Fred Andersen (MN)*
3:45 – 4:30 p.m.	11. Hear an update on *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) Reports —*Fred Andersen (MN)*

Saturday, November 14, 2026

8:00 – 8:20 a.m.	12. Hear an Update on SOA Research and Education—*R. Dale Hall (SOA)*
8:20 – 8:40 a.m	13. Hear an Update on the Society of Actuaries' (SOA's) Development of a New Valuation Basic Table (VBT)—*Mary Bahna-Nolan (SOA)*
8:40 – 9:00 a.m	14. Hear an Update from the American Academy of Actuaries (Academy) A. Council on Professionalism and Education—*Laura Hanson (Academy), Linda Lankowski (Academy), Tricia Matson (Academy) and William Hines Academy)* B. Life Practice Council—*Seong-min Eom (Academy)*
9:00 – 10:00 a.m	15. Discuss Other Matters Brought Before the Task Force
10:00 a.m.	Adjournment

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Agenda Item 1

Consider Adoption of its Minutes

and Written Subgroup Reports

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Draft: 11/4/26

Life Actuarial (A) Task Force
Virtual Meeting
October 29, 2026

The Life Actuarial (A) Task Force met Oct. 29. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Heather Carpenter represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Joshua Hershman represented by Wanchin Chou (CT); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Doug Ommen represented by Mike Yanacheak (IA); Marie Grant represented by Nour Benchaaboun (MD); Julie Dreier represented by Fred Andersen (MN); Angela L. Nelson represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Ned Gaines represented by Maile Campbell (NV); Susan Ochs represented by David Wolf and Cecilia Mendoza (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); and Carter Lawrence represented by Eric Scott (TN).

1. Adopted AG 55 Guidance Document and Templates for 2026 Reporting

Hemphill said the Task Force received comment letters from the New Jersey Department of Banking and Insurance and Risk and Regulatory Consulting (RRC) on the Oct. 23 exposure.

Mendoza said New Jersey suggests three changes to improve transparency: 1) require companies to break down excluded assets by type in the template or report, rather than report only a total; 2) identify the counterparty's reserving framework and covered business in the counterparty tab so reviewers can consistently interpret post-reinsurance reserves across counterparties; and 3) clarify the meaning of "significantly different" for purposes of determining when the Counterparty Portfolio tab is required. Given the timing, Andersen recommended adding a discussion to the Fall National Meeting agenda on asking companies to provide this information voluntarily for 2026 and formalizing the requirements in the next update cycle.

Jason Kehrberg (RRC) said disclosure alone may be insufficient when asset adequacy testing reveals a deficiency. Recognizing that addressing every reported deficiency could be overly burdensome, he suggested limiting the requirement to cases involving defined significant risks, such as a material reserve decrease, significant reliance on Guideline Excluded Assets, or meaningful collectability risk. He said RRC comments are intended to promote consistent policyholder protections across states.

Cheung said he could support requiring additional reserves where there is sufficient certainty in the *Actuarial Guideline LV – Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) calculation, but expressed concern about imposing an automatic requirement where calculations rely heavily on estimates, particularly for third-party reinsurance transactions. He cautioned against a requirement that could result in companies being exempted from AG 55 calculations because sufficient data are unavailable. Wolf said although AG 55 is a disclosure requirement, domiciliary state insurance regulators have the authority to require additional reserves if the department's review and discussions with the company determine it is necessary. Wolf said New Jersey supports requiring more than disclosures under AG 55. Andersen recommended revisiting this topic in the next update cycle since requiring additional reserves represents a significant change.

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Andersen made a motion, seconded by Yanacheak, to adopt the AG 55 Guidance Document and template exposed Oct. 23. (Attachment A). The motion passed unanimously.

2. Heard a Presentation from the Academy on SSAP 109

Dave Bulin (American Academy of Actuaries—Academy) said that the presentation was intended to supplement the Oct. 1 presentation to the Task Force. Bulin focused on extending that presentation to provide concrete numerical examples and discussing how it may impact work actuaries do (Attachment B). The examples focused on the DV-01 metric and how the example hedge performs under initial starting conditions and drops in interest rates. Bulin compared SSAP 86, SSAP 108, and SSAP 109, highlighting their similarities and differences. He said including SSAP 109 in asset adequacy testing should produce more stability in the surplus projections of the cash flow testing exercises; resulting in more stability from a year-to-year perspective within a scenario across different interest rate paths and from one year to the next. It should encourage companies to manage their asset-liability management (ALM) risk by using these types of macro hedges.

Cheung noted that regulators explicitly addressed SSAP 108's application to PBR and non-PBR reserves when it was developed. He asked whether SSAP 109 would likewise apply to hedges for both reserve types, accounting for PBR-related liability sensitivity rather than focusing solely on assets. Bulin said the Academy group had not specifically addressed the question, but it was his understanding that SSAP 109 is not limited to PBR reserves and is intended to apply more broadly to qualifying ALM hedges.

Carmello asked if the Academy discussed having one rather than three interest rate sensitivity metrics. Bulin said the Academy considers some duration metrics better suited than others, particularly when assets or liabilities have options or cash flows that vary by interest rate path, and will address the issue in its comment letter. For example, Macaulay and modified duration may not be suitable when optionality or a floating rate is present, whereas effective duration, which measures the value change from a one-basis-point move, is more appropriate.

Tom Karafin (Prudential) said that some companies objected to the Academy's recommendation to align the amortization period with the tenor of the derivative, because doing so could discourage the use of shorter-term derivatives in SSAP 109 programs. He said there are other ways to accomplish this. At the Sept. 10, 2025 Statutory Accounting Principles (E) Working Group (SAPWG) call, the ACLI presented both an Amortized Cost Method and a Mark & Spread Method. Karafin said the Mark & Spread Method could eliminate regulators' concerns regarding cherry-picking. Carmello asked which method industry was leaning towards. Karafin said industry supported both methods when presented to SAPWG but favored—and still favors—the Amortized Cost Method. Hemphill asked the Academy to discuss and address in their comment letter the two methods previously presented to SAPWG.

Angelica Tamayo-Sanchez (New York Life) said the Mark & Spread Method would add significant operational complexity because derivatives would be marked-to-market quarterly, while resulting gains and losses would be deferred and amortized without termination of the derivative.

3. Discussed VM-20 Table F Non-Monotonic Issue

Scott O'Neal (NAIC) said that the *Valuation Manual* (VM)-20 Table F has been non-monotonic since May 2026. VM-20 Appendix 2 states that the table should be monotonic across maturity and rating and requires a smoothing technique; however, NAIC staff do not have documentation specifying how to apply it. NAIC staff seek direction from the Task Force. Hemphill said discussions may continue at the Fall National Meeting.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
Virtual Meeting
October 22, 2026

The Life Actuarial (A) Task Force met Oct. 22, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Heather Carpenter represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Joshua Hershman represented by Wanchin Chou (CT); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Marie Grant represented by Nour Benchaaboun (MD); Julia Dreier represented by Fred Andersen and Ben Slutsker (MN); Angela L. Nelson represented by William Leung (MO); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matthew Elston (OH); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted 2027 Proposed Charges

Hemphill said that, based on a suggestion from Chou, a charge was added to the Task Force's 2027 proposed charges related to the review and approval of non-U.S. mortality tables. She said 2026 was the second year the Task Force was able to consider non-U.S. mortality tables. Although approval was not reached this year, Hemphill said Task Force members completed substantial review work and became more comfortable than in the prior year. She said the new charge emphasizes the importance of adopting non-U.S. mortality tables and that a plan is also being developed to approach the reviews incrementally so that manageable review items are put before the Task Force at a given time.

Hemphill said companies did a good job providing more detail on their own analyses, including actual-to-expected (A/E) results and reserve impacts. However, Task Force members said they were looking for an objective third-party view, similar to what the Society of Actuaries (SOA) normally provides for U.S. tables. She said the Task Force is reaching out to international actuarial organizations, and the SOA is helping to put the Task Force in contact with its counterparts. She said the goal is to obtain that view for the non-U.S. tables and complete the remaining review that Task Force members need to support adoption.

Leung suggested adding language to timely review and approve requests for non-U.S. tables, including coordinating with international regulatory bodies and organizations to receive information on relevant market tables and international lives, and considering them for adoption into the Valuation Manual. Hemphill said the proposed language enhances the charge by emphasizing timely review. She said the Task Force cannot guarantee that it will approve all requests, because it does not know what requests it may receive. She suggested revising the language to "completing timely reviews and considering approval of requests for non-U.S. mortality tables", to which Leung agreed.

Elston made a motion, seconded by Chou, to adopt the Task Force's 2027 proposed charges with the revised new charge (Attachment A). The motion passed unanimously.

2. Adopted APF 2026-07

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Hemphill said amendment proposal form (APF) 2026-07 adds language to VM-20, Requirements for Principle-Based Reserves for Life Products, that addresses the use of non-prescribed scenario generators strictly to supplement, rather than replace, scenarios from the generator of economic scenarios (GOES). This language already exists in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities. She said that because the language was missing from VM-20, some companies were confused about whether they needed to support such use as simplification, even when it only provided information in addition to the GOES scenarios.

Chupp made a motion, seconded by Benchaaboun, to adopt APF 2026-07 (Attachment B). The motion passed unanimously.

3. Exposed APF 2026-09

Slutsker introduced APF 2026-09 on asset selection that is intended to ensure that when segments of an asset portfolio are carved out to support specific liabilities, this is done consistently with how the company manages its portfolio and with other frameworks such as cash-flow testing. He said large portfolios support multiple product types and business lines, but some assets are meant to support only certain lines. This is reflected in areas such as non-guaranteed elements (NGEs) and asset liability management (ALM) strategy. He said the goal is to ensure that when some liabilities are subject to principle-based reserving (PBR) and others are not, the PBR business is not supported opportunistically by only the higher-yielding assets in a portfolio. Slutsker said the issue is arising now because of VM-22, which is in its three-year transition period for new business, with in-force application under discussion. He said VM-22 covers many single-premium annuity products where reserves depend heavily on asset assumptions. He said that if assumptions are not consistent with how a company uses assets to support its liabilities across actuarial functions, the resulting reserve can change significantly.

Slutsker walked through the VM-20 language, which is repeated throughout the APF for VM-21 and VM-22. He said companies should apportion assets from a general account portfolio to specific liabilities consistent with company management and asset segmentation practices across business functions, as documented under VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation. He said the language does not require any particular method, such as pro rata allocation. Instead, it requires consistency with company management, disclosure, and the supporting evidence. If the VM-31 requirements are not satisfied, either because the documentation is incomplete or because the state insurance regulator does not find it sufficient, the company must hold the higher of a pro rata slice of the portfolio or a result consistent with how the company segments the assets. He said this is not a safe harbor, and VM-31 does not require companies to run and compare both approaches. He said the backstop is not intended to be prescriptive and may be inappropriate or punitive in some cases. He said the goal is for few, if any, companies to reach this paragraph. Slutsker said the APF also prohibits double counting of assets and requires consistency between PBR and asset adequacy analysis under VM-30, Actuarial Opinion and Memorandum Requirements. He said a company cannot assign the best assets to liabilities and the worst assets to surplus. Where liabilities and surplus are held in separate portfolios, assets may not be borrowed from the surplus portfolio to support the liability portfolio. He said that for most companies he expects the APF to require mainly additional documentation at the outset, with less work in later years.

Slutsker said the VM-30 changes require consistency between asset adequacy analysis and PBR in how assets are segmented within a general account. He said there had been comments suggesting that VM-30 not be changed, but the Task Force wanted to include the VM-30 changes. A guidance note in the draft APF 2026-09 states that if the allocation is the same but the level of aggregation differs between PBR and cash-flow testing, this can be documented as a simplification in the VM-31 report and noted in the VM-30 memorandum, with support that the impact is immaterial or does not overstate reserve adequacy.

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Slutsker said the documentation changes include reliance documentation under VM-30 and more extensive documentation under VM-31. He said a guidance note clarifies that the requirements should not affect the appropriateness of NGE assumptions or decisions but should ensure that asset segmentation is used consistently across actuarial functions. He said prior-year changes are called out in this section intentionally to simplify review. He said the intent is to prevent a company from running many asset segmentations and choosing the one that produces the lowest reserve. He said more evidence is needed because simply stating that the principles are satisfied is no longer sufficient. Slutsker said the draft reporting template referenced in the APF was not in the meeting materials but was intended to be included in an exposure.

Chupp noted several reference corrections in APF 2026-09.

Hemphill exposed APF 2026-09, with Chupp's corrections and the draft template, for a 57-day public comment period ending Dec. 18.

4. Exposed APF 2026-08

Hemphill said the Task Force met Oct. 8 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to review individual company reporting elements, including VM-30 and VM-31 reporting. She said part of that discussion found that current PBR reporting does not contain sufficient detail for state insurance regulators to review whether fully allocated expenses are reflected. She said APF 2026-08 addresses this concern by adding reporting only. She said the methodology requirements are clear, but VM-31 asks for little detail in reporting.

Hemphill said the APF adds a new Template D to the standard PBR actuarial reporting template that details expenses by category, so state insurance regulators can reconcile them to Exhibit 2 and Exhibit 3. She said this is a common review exercise, but the information is not currently a standard inclusion, and expense reporting in PBR reports is usually high level. The template splits expenses into acquisition and maintenance, with overhead included with maintenance because of how both are reflected in PBR. Additional columns address the methodology for splitting expenses between PBR and non-PBR business, the split between acquisition and maintenance, acquisition items that are effectively overhead or maintenance, and changes in methodology from the prior year.

Hemphill exposed APF 2026-08 and the associated template for a 43-day public comment period ending Dec. 4.

5. Adopted the AG 53 Year-end Guidance Document and Template Revisions

Andersen said that on a recent call, the Task Force exposed revisions to the *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) template and related guidance document. The revisions add emerging asset types to obtain information on asset allocation and asset return assumptions for those assets. He said comments suggested: 1) a best-efforts approach for year-end 2026 for new asset types, because some systems may be unable to convert the new information into the template format at this time of year; 2) adding rows to the asset summary page to identify non-invested assets; and 3) adding materiality thresholds. He said the revised documents in the materials reflect these edits.

Andersen said the most substantive new language states that for year-end 2026 reporting, companies should complete the newly added fields on a best-efforts basis. If a company cannot fully complete one or more fields, it should provide a narrative description of the applicable exposures and relevant qualitative information instead of complete quantitative reporting. Companies are encouraged to report as much information as reasonably

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available, and full completion of the new fields is expected beginning with year-end 2027 reporting. He said there appeared to be general agreement on this approach.

Andersen made a motion, seconded by Cheung, to adopt the revisions to the AG 53 template and guidance document (Attachment C). The motion passed unanimously.

6. Discussed Revisions to the AG 55 YE 2026 Guidance Document

Andersen said the Task Force exposed a new guidance document for *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) on a recent call. He said the guidance is intended to obtain an appropriate level of detail on reserves supporting certain reinsurance transactions. He walked through a presentation (Attachment D) of revisions he proposed based on the comments received.

Bayerle (American Council of Life Insurers—ACLI) said the ACLI appreciates the incorporation of many of its suggestions and will review the next draft. Bruce Friedland (American Academy of Actuaries—Academy) said that if the areas of regulatory interest identified at the Summer National Meeting remain of interest, it may be helpful to identify them in the guidance document. He said the Academy still views RBC-related estimates and calculations as outside the appropriate scope and suggested a different avenue for that information. Andersen said the comments would be taken under consideration. Peter Gould (Retired Insurance Consumer) asked whether an updated public analysis of the 2025 AG 55 filings would be provided, following the preliminary overview at the Summer National Meeting. Andersen said he will present on AG 53 and AG 55 at the end of the first day of the Task Force's meeting in Dallas, TX, in about three weeks. Gould asked whether an affiliate would be treated as affiliated or non-affiliated for AG 55 filings if a jurisdiction grants a permitted practice to treat it as non-affiliated. Andersen said he was not aware of that situation. He said the requirements are similar for affiliated and non-affiliated treaties, with possible exemptions for some non-affiliated treaties with strong counterparties.

Andersen said he would release the revised draft Oct. 23 for a Task Force chair exposure through Oct. 28.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
Virtual Meeting
October 1, 2026

The Life Actuarial (A) Task Force met Oct. 1, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Heather Carpenter represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Joshua Hershman represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Julia Dreier represented by Fred Andersen and Ben Slutsker (MN); Angela L. Nelson represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Susan Ochs represented by David Wolf (NJ); Ned Gaines represented by Maile Campbell (NV); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matthew Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Discussed a Referral from the Statutory Accounting Principles (E) Working Group on ALM Derivatives and Exposed Requests for Input on a Pilot Project

Hemphill said the Task Force had received a referral (Attachment A) from the Statutory Accounting Principles (E) Working Group that requested that the Task Force conduct a pilot project to help assess specific hedge effectiveness tests proposed to be used by the industry in a new *Statement of Statutory Accounting Principle (SSAP) No. 109—Asset Liability Management (ALM) Derivatives*. Hemphill prepared a presentation (Attachment B) that provides background and outlines next steps. Hemphill said her goal for the meeting was to expose the materials with separate comment deadlines with two requests for input: 1) a request for companies to signal their willingness to participate in the pilot project; and 2) a request for all interested parties and state insurance regulators to suggest additional disclosures or enhanced documentation that participating companies would present.

Carmello asked why options are excluded from draft SSAP No. 109, noting that some companies have hedged on an aggregate basis using options and swaps. Julie Gann (NAIC) said the exclusion arose from Interest Maintenance Reserve (IMR) Ad Hoc Group discussions and was offered by industry representatives participating in that group. She said asymmetric derivatives, which do not have an equal chance of resulting in a gain or a loss, could be excluded so that the recognized deferred loss would reflect only the change in fair value. The deferred loss would not include the upfront premium paid to acquire the derivative. Cheung responded that, given the payoff shape of an option, which at some point no longer responds to further rate movements, he would find it hard to believe an option would qualify as an effective hedge. He presumed this was the reason for the carve-out. Carmello said that if the concern is a one-way mismatch, he did not see why an option would not work. Cheung agreed that an option might work if the liability had a similar profile.

Carmello asked how macro-options would be accounted for if they are not part of this project. Gann said all derivatives that are not accounting-effective hedges would continue to be captured in SSAP No. 86—Derivatives under the fair value accounting model. Derivatives within the scope of the draft SSAP No. 109 would follow the new amortized cost approach with deferral of gains and losses. Gann said that, as a result of the IMR work, the only derivatives that would go through IMR are strictly accounting-effective hedges for which the hedged item also went to IMR upon termination, so that the IMR amounts offset.

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Elston suggested that, given the complexity, the Task Force could ask the American Academy of Actuaries (Academy) for an educational webinar next year, depending on the company presentations and the Task Force's views at that time. Hemphill said the Task Force could also ask the Academy for background on effective ALM hedging and on the documentation a state insurance regulator may want to review when determining effectiveness. She noted that the individual company sessions would be specific to each company's hedge programs.

Tip Tipton (American Council of Life Insurers—ACLI) said several ACLI members have been engaged on the issue, and some have already prepared documentation, which the ACLI has used as a guide for others. He said at least five companies have expressed interest and that the ACLI is seeking more. He said the ACLI's goal is for member companies to complete their materials by Dec. 31, given third-quarter reporting and year-end work.

Tom Karafin (Prudential) asked for any additional details over the next month about what the Task Force would like to see in the pilot. He said he expected the Task Force would want to see liability cash flows and how duration is calculated. He said companies would be hesitant to disclose asset cash flows because of their proprietary nature and the fact that asset duration is generally market-consistent. Hemphill asked whether he was distinguishing between providing asset cash flows to the domestic regulator during the review step and providing them to the Task Force in regulator-to-regulator sessions. Karafin said the hesitancy stems from the proprietary nature of asset cash flows and that the asset duration calculation is not controversial. He said liability cash flows are the crux of the exercise and that companies want to come to the January meetings with the information the Task Force wants.

Hemphill asked Task Force members and others to indicate whether they would want more detail on the asset side. She said she had anticipated that companies would present calculations for both assets and liabilities and discuss the portfolios and how the hedge was selected. She said there may be room in draft SSAP No. 109 to add disclosures and requirements on how a specific identified hedge fits within a company's broader ALM strategy. She said that when a company designates only a portion of the assets, a portion of the liabilities, and a portion of the mismatch, it raises the question of how that hedge fits within the company's broader approach.

Karafin said he did not anticipate assets being bifurcated. He said the related draft language was intended more for liabilities, such as hedging only the outflows of a liability with both inflows and outflows. Hemphill said she understood the concept of hedging a portion of a liability. However, she said the draft, as written, allows a portion of the assets, a portion of the liabilities, a portion of the mismatch, and a portion of the derivative instrument. She suggested narrowing in on where that flexibility is needed.

Slutsker asked whether NAIC committee support or the Working Group had any evaluation of what went well and what concerns arose during the implementation of SSAP No. 108 that could inform the pilot presentations. Gann said there was no such evaluation. However, she said reports from the last couple of years show that approximately nine companies follow SSAP No. 108. She said NAIC committee support have raised questions with the related states because it is not clear whether the guidance and the schedules are being interpreted consistently. She said it may be beneficial for NAIC committee support to compile a list of those SSAP No. 108 questions to share with Task Force members for consideration in the SSAP No. 109 project. Slutsker agreed, describing the SSAP No. 108 experience as a pilot for the pilot. He said it would be helpful to consider before extending the treatment more broadly to other types of business. Hemphill noted that one change to draft SSAP No. 109 had already been made based on lessons learned from SSAP No. 108.

Hemphill exposed the materials from the meeting—the Working Group's referral, exposure materials, and the presentation—with a cover letter. The cover letter will note the decision to target company presentations in January and February, with companies anticipated to provide written materials by Dec. 31. It will also request: 1)

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companies to express interest in participating and indicate when they could present by Oct. 21 and 2) by Oct. 30, all interested parties to provide feedback on what they would like to see.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
Virtual Meeting
September 24, 2026

The Life Actuarial (A) Task Force met Sept. 24, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Heather Carpenter represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Joshua Hershman represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Holly W. Lambert represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Marie Grant represented by Nour Benchaaboun (MD); Julia Dreier represented by Fred Andersen and Ben Slutsker (MN); Angela L. Nelson represented by William Leung (MO); Susan Ochs represented by David Wolf (NJ); Ned Gaines represented by Maille Campbell (NV); Kaitlin Asrow represented by William B. Carmello and Amanda Fenwick (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); TK Keen represented by Tashia Sizemore and Joshua Blakey (OR); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed a Draft Referral to the Statutory Accounting Principles (E) Working Group on Reinsurance Collateral

Hemphill said that interested parties had raised a concern that collateral requirements may not be working as intended when the reserves being ceded are valued under principle-based reserving (PBR). Hemphill said that under pre-PBR mirror reserving, the reserve credit equals the reserve that would otherwise be calculated. Therefore, Hemphill said there is no difference between basing collateral on reserve credit and on the direct reserve in pre-PBR business. Hemphill said that, however, under PBR, a company may have an aggregation benefit that is lost when a portion of the business is reinsured, making the credit for reinsurance smaller than a standalone PBR calculation for the ceded block.

Hemphill said that the referral would ask the Statutory Accounting Principles (E) Working Group to discuss the intent of its collateral requirements and take action accordingly. Hemphill said that if the intent is to ensure that an appropriate amount of funds are available for the reinsurer to pay claims under moderately adverse conditions, the standalone PBR calculation would be more appropriate. If instead the intent is to ensure that collateral is sufficient for the ceding company to post the full PBR reserve upon recapture, Hemphill said a different result would follow. Hemphill said that the draft was developed in discussion with Task Force leadership and Working Group leadership, and that her understanding is that the first of the two is the likely intent because the appropriateness of the collateral level would not be intended to depend on assuming recapture. The Task Force's role is to discuss the interaction of the reserve calculation and to identify the difference between PBR and non-PBR business and what it may mean for collateral, and that if the Working Group agrees the first is the intent, the draft includes small revisions to the requirements to address the PBR case.

Fenwick said that New York requires reserves to be calculated on a standalone basis for reinsurance ceded, in part so that the reserve credit is not reduced, and that New York addressed the issue through its reserving methodology. Fenwick said that if the Task Force proceeds with the intent described in the first item, it would also need to consider cash flow testing in addition to the PBR reserve. Carmello said that the language in the draft amendment to *Statement of Statutory Accounting Principles (SSAP) No. 61—Life, Deposit-Type and Accident and Health Reinsurance* appears to presume a full reinsurance credit and may need to refer to the risk reinsured. Fenwick said the reference should be tied to the portion reinsured so that it coincides with the correct amount.

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Hemphill agreed that the intent of the pre-reinsurance calculation is that it applies only to the piece being ceded. Hemphill said that the cash flow testing point is a broader question, noting that the direct reserve calculation for pre-PBR business would not have the issue, but it could arise in cash flow testing. Fenwick said that, as drafted, the requirement permits credit if the ceding entity holds securities or cash equal to the reserve credit taken, and that the reserve credit taken would presumably incorporate any cash flow testing reserves. Therefore, Fenwick concluded that the edits addressing the PBR issue should also capture cash flow testing reserves.

Hemphill asked Fenwick whether language could be added addressing asset adequacy reserves for the PBR calculation. Fenwick suggested language referring to the asset adequacy reserve "if greater" but said she had not reviewed the wording long enough to propose specific text and offered to submit a comment. Hemphill said that she would also consider clarifying language during the exposure period for situations in which cash flow testing reserves are also present. Fenwick said that the collateral impact was one of the reasons New York performs standalone testing on a gross basis and had commented previously on pre- and post-reinsurance aggregation levels for PBR.

Hemphill exposed the draft referral for a 21-day public comment period ending Oct. 14.

2. Discussed Comments Received on the *Valuation Manual* Default and Spread Methodology and Next Steps

Hemphill said that after the American Academy of Actuaries (Academy) reviewed the *Valuation Manual* default and spread methodology, Task Force members had additional questions about whether the methodology contemplated the projection period used, whether a 40-year to 100-year projection remains appropriate for a portfolio rather than individual assets, and the handling of private assets. After these questions were exposed, Hemphill said that comment letters were received from the Academy and the American Council of Life Insurers (ACLI).

Brian Bayerle (ACLI) said that even with the analysis the Academy performed to review the methodology, there is an opportunity to consider targeted refinements. Bayerle said that the ACLI raised several issues, including: 1) looking at other asset classes that may not be appropriately represented in the current methodology; 2) the localized default approach; 3) the granularity of the recovery assumptions; and 4) the mapping of specific assets that do not have ratings. Bayerle said that the ACLI continues to have concerns about an alternative guardrail that would apply only to specific products and that it would be open to a more principles-based approach to determining whether additional refinements to the guardrail would meet regulatory needs. Bayerle concluded by stating that the best path forward at this time may be to revisit and expand the spread and default methodology.

Hemphill summarized the Academy's comment letter, noting that the Academy confirmed that the methodology in the *Valuation Manua*l remains appropriate for public non-callable corporate bonds and that the projection period and the portfolio composition did not warrant different treatment. Hemphill said that the Academy identified potential for refinement for private assets, noting that companies have discretion to set spreads for private assets in a reasonable relationship to public assets when performing the company run. The Academy also recommended greater consistency between defaults and spreads.

Hemphill said that the comments indicate that investigation and additional work are needed, and asked NAIC committee support to look into two options and report back. Hemphill said the first option would be a request for proposal (RFP) to secure a consultant to analyze: 1) whether refinements are needed to the underlying spreads and defaults; and 2) subsequently, how the guardrails should be evaluated to confirm they appropriately reach the moderately adverse level. Hemphill asked NAIC committee support to report on the timeline under that route, including how long it would take to secure a consultant and complete the analysis. Hemphill said the second option would be to determine whether the existing contract with Conning related to the generator of economic scenarios

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(GOES), which is an entirely separate workstream, could be expanded to include this additional scope of work, given that Conning has the required expertise and that expanding the contract could produce potential updates more quickly.

Hemphill asked whether Task Force members agreed that the Task Force has reached the point of engaging a consultant, whether through Conning or through an RFP, or had concerns. Slutsker said that the approach sounds reasonable. Bayerle said that the ACLI supports the effort to issue an RFP and look further into the issue. Hemphill said that no final decisions were being made and that NAIC committee support would report back on what each route would involve so that the Task Force can make an informed decision, noting that one option could be more expedient, but that the pros and cons of both approaches are important to consider.

3. Adopted its Summer National Meeting Minutes

Chupp made a motion, seconded by Blakey, to adopt the Task Force's Summer National Meeting minutes (*see NAIC Proceedings – Summer 2026, Life Actuarial (A) Task Force*). The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
Virtual Meeting
September 17, 2026

The Life Actuarial (A) Task Force met Sept. 17, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Heather Carpenter represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Thomas Reedy (CA); Joshua Hershman represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Matt Cheung (IL); Vicki Schmidt represented by Nicole Boyd (KS); Julia Dreier represented by Ben Slutsker (MN); Angela L. Nelson represented by William Leung (MO); Susan Ochs represented by David Wolf (NJ); Ned Gaines represented by Maile Campbell (NV); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Kate Yang (OK); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted the Society of Actuaries' Recommended HMI and FMI Rates

Hemphill said the Society of Actuaries (SOA) recommendation for the 2026 historical mortality improvement (HMI) and future mortality improvement (FMI) scales exposure resulted in one comment letter. She noted that NAIC model office analysis was completed.

Brian Bayerle (American Council of Life Insurers—ACLI) said that the ACLI supports adoption of the updated HMI and FMI scales. The ACLI is considering a future proposal to address long-term governance, development, and maintenance of the tables. Hemphill said mortality improvement has been subject to greater uncertainty since the pandemic, and there has been a longstanding desire to reflect industry experience rather than population experience, a shift that requires balancing responsiveness and stability.

Amy Fitzpatrick (NAIC) walked through a presentation (Attachment A) covering the model office analysis. Fitzpatrick said that the universal life with secondary guarantees (ULSG) model office is a shadow-design lifetime secondary guarantee block assuming contracts issued in 2023 and a valuation date of Dec. 31, 2026, with HMI applied through year-end 2026.

Fitzpatrick said that, comparing the 2026 scale to the 2025 scale as of year-end 2026, the standard methodology produced a decrease in the deterministic reserve of approximately 2.5% for the model office as a whole. Fitzpatrick said that the difference between the standard and alternate FMI methodology affected only the younger issue ages in the model office.

Marianne Purushotham (SOA) said that the SOA group reviewed the model office results. The results appear reasonable in relation to the proposed scale and the impacts the SOA would expect.

Chupp made a motion, seconded by Reedy, to adopt the updated HMI and FMI exposure (Attachment B). The motion passed unanimously.

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2. Adopted the 2027 GRET Factors

Hemphill said that the Generally Recognized Expense Table (GRET) was presented at the national meeting and a slight update was made as a result of that discussion regarding the groups being merged. Hemphill said no comments were received on the exposed version.

Slutsker made a motion, seconded by Cheung, to adopt the updated 2027 GRET factors (Attachment C). The motion passed unanimously.

3. Discussed Comments on the Starting Asset Allocation Concept Exposure

The Task Force received comments from the American Academy of Actuaries (Academy), ACLI, and Risk and Regulatory Consulting (RRC). Slutsker said starting assets have greater significance under *Valuation Manual* (VM)-22, Requirements for Principle-Based Reserves (PBR) for Non-Variable Annuities, because many new contracts are single-premium and capital-intensive, unlike life business that relies more on future premiums. Discussions on applying VM-22 to in-force business and amendment proposal form (APF) 2023-10's use of the net asset earned rate (NAER) under VM-20, Requirements for PBR for Life Products, highlighted the need to address the investment framework. The starting asset allocation concept would require additional documentation in VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, demonstrating that PBR starting asset allocations reflect actual asset management. Under this concept, documentation is necessary to demonstrate that an asset within a portfolio backing a subset of liabilities is not also being allocated on a pro rata basis or to another block within the same portfolio. Key elements would include a standardized template, company attestations, and documentation of non-guaranteed elements, risk and asset-liability management, and investment governance. Slutsker noted that other jurisdictions emphasize similar documentation.

Bayerle said the ACLI supports the principle that the model asset segment should reflect how companies manage their assets in practice, and that regulators should have sufficient documentation to understand that consistency. However, VM-30, Actuarial Opinion and Memorandum Requirements, should remain out of scope, and the proposal should apply only to VM-20, VM-21, Requirements for PBR for Variable Annuities, and VM-22. Asset adequacy analysis evaluates the adequacy of reserves and other liabilities in aggregate against the assets supporting the entire portfolio, whereas this proposal focuses on asset segmentation and controls within the PBR calculation. Bayerle noted that VM-30, *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), and Actuarial Standard of Practice (ASOP) No. 22 already contain extensive requirements, and he asked that any perceived regulatory gaps be identified.

Bayerle said companies already demonstrate compliance through data sources such as VM-30, company audits, regulatory reviews, and financial examinations. The ACLI requested that if a standardized template is determined to be necessary, its intended purpose and use be clearly identified.

Bayerle said that, as written, the in-force component assumes full implementation within a PBR chassis, but that, even with retroactive application of VM-22, there would remain pre-PBR blocks, so some portion of assets would always support non-PBR liabilities.

Hemphill asked Bayerle to clarify the ACLI's comments on cash-flow testing. She noted that asset adequacy is not always assessed in aggregate, citing *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) and *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). Although cash-flow testing and asset adequacy analysis often use an aggregate view, companies generally model separate blocks to better assess the position of different blocks. Hemphill said assets supporting VM-22 reserves should not also support a long-

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term care block in cash-flow testing under AG 51. Bayerle agreed that assets should not be double-counted, but all assets are available to support all liabilities and, except for standalone requirements such as AG 51, the actuarial opinion standard takes an aggregate view.

Cheung said that the assets a company selects to back PBR business determine the resulting liability, so if higher-yielding assets are used in the PBR calculation, those assets cannot also be relied upon elsewhere in asset adequacy testing. Bayerle said that the stratification already occurs at the reserve level under PBR and questioned why a similar stratification would be necessary when evaluating liabilities in total, noting that a surplus in one block offsetting a deficiency in another is consistent with the existing asset adequacy testing standard. Hemphill said that more granular disclosures inform both state insurance regulators and the appointed actuary about the risk and experience of various blocks, and that assets supporting PBR should also be the assets used for cash-flow testing.

Hemphill asked Bayerle to expand on the relationship between the starting asset allocation work and the evaluation of spreads and defaults. Bayerle said that a company managing a single block containing both pre-PBR and PBR liabilities might not segment assets within that block. Under a NAER approach, the concern is that a company could use a discount rate deemed inappropriate by state insurance regulators, which is linked to concerns about selecting assets to improve modeled yields and discount rates.

Bruce Friedland (American Academy of Actuaries—Academy) provided verbal comments on behalf of the Academy's Life Valuation Committee. The Academy agreed with the principle that the model asset portfolio should be consistent with actual company management practices. However, there may not be a one-to-one match between appropriately available assets and the required starting asset amount. Friedland asked whether the excess assets could support other liability portfolios or should be allocated to capital. Friedland said it was unclear: how a company would determine which approach produces the higher modeled reserve between actual company investment practices and a pro rata approach without performing two runs. He noted that a forced pro rata allocation may not align with the modeled reinvestment strategy and could create issues for assets known to support a specific liability portfolio, such as hedge assets. He suggested clarifying the treatment of excess assets.

Friedland said the investment governance section should be enhanced to tie in documented investment guidelines. Friedland suggested adding language to the in-force management section explaining that any asset segmentation, whether formal or informal, is considered when setting non-guaranteed elements that are affected by factors beyond the assets backing the modeled blocks.

Friedland questioned whether the full in force exemption is intended to refer to all liabilities across the different *Valuation Manual* chapters, noting that a relatively new block under VM-20 that is entirely subject to PBR would appear to warrant the same exemption from the documentation requirements. He suggested clarifying the intent of the full asset-liability management (ALM) exemption.

Hemphill said the RRC comment letter was generally supportive of the conceptual exposure and the desire for consistency and practical guardrails. The comment letter suggested a safe harbor was important. Hemphill said a safe harbor is consistent with the exposure, and that RRC emphasized the importance of aligning modeled assets with actual company practice.

Slutsker said an APF reflecting consensus on the concept document would be drafted over the next month, with a longer exposure period targeted for year-end. The Task Force discussed the ACLI's three main concerns. Regarding VM-30's scope, Elston emphasized consistency between PBR asset allocations and cash-flow testing. He said that an attestation of consistency, with a narrative explaining any differences, would aid review even without full documentation requirements. Cheung said that, as more business becomes subject to PBR, companies

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may seek to use PBR as an appropriate basis for asset adequacy testing; however, assets used to back PBR reserves could not also be used to support other business. Hemphill said this issue already exists when the appointed actuary relies on a PBR model for a block; those assets should not be reused elsewhere in cash-flow testing. Bayerle said PBR includes a formulaic component and should not be the sole basis for asset adequacy testing, as the appointed actuary may consider factors beyond those reflected in the stochastic reserve. Reedy supported including VM-30 at this stage of APF development because additional information on starting assets would be useful when considering retroactive application of VM-22.

Slutsker said drafting would include VM-30, given continued interest in its inclusion, while seeking to reduce duplication in work and implementation. Addressing the request to accept existing documentation, he said company documentation varies widely, and cash-flow testing documentation can span thousands of pages without consistent organization. In contrast, VM-31's consistent structure makes review easier and faster. Unlike AG 53, the standardized template would support review of individual companies rather than aggregate results across companies. Slutsker said work on the standardized document would continue through a collaborative approach, with feedback sought through the exposure process. Regarding in-force application, Slutsker said any restriction on applying VM-22 to business issued before 2017 should not disqualify a company from the exemption. Transition requirements should also allow flexibility during transition periods or when business cannot be placed into PBR. He invited objections or further comments; none were offered.

Hemphill said any further contributions to the discussion may be sent by email to her, Scott O'Neal (NAIC), or Slutsker as the Task Force moves into next steps.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
Virtual Meeting
September 10, 2026

The Life Actuarial (A) Task Force met Sept. 10, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Heather Carpenter represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Joshua Hershman represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Julia Dreier represented by Fred Andersen (MN); Angela L. Nelson represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Heard a Presentation from the CIA on Canadian Mortality Tables

Chris Fievoli (Canadian Institute of Actuaries—CIA) introduced Bob Howard (CIA), who provided an overview of the CIA 2014 mortality table. Howard said that the Canadian mortality tables are experience tables without an added margin. The valuation actuary applies a margin for adverse deviation based on professional judgment and the company's circumstances. Howard said the CIA 2014 table is based on 10 policy years of data centered on 2014. The data covers standard-issue single-life policies, excluding renewable-term business after the first renewal period, and is measured by amount rather than policy count. Experience was adjusted from 2014 using a mortality improvement scale. Howard said the contributing companies represented about 70% of the Canadian market and generally numbered 10 to 12 in a year.

Hemphill noted that in U.S. statutory reserving, various margins are applied to mortality, including where there is greater uncertainty due to data limitations, and she asked whether margins were included in the CIA mortality table. Howard said the table was intended to reflect observed experience, including where data was limited. At very high ages and issue ages, the developers continued the observed curve as a best estimate rather than adding conservatism. He said adding conservatism to the published table could create a margin on top of the margin applied by the valuation actuary.

Hemphill asked how homogenous the mortality data was across Canada. Howard said the table does not vary by province, race, or preferred underwriting class. It provides male and female rates for smoker, nonsmoker, and smoking-unknown categories. Simplified-issue, group-conversion, guaranteed-insurability-option, and substandard policies were excluded from the standard-issue data. Howard said the CIA had not developed a simplified-issue table because the available data was insufficient and company definitions were not sufficiently homogeneous.

Howard also discussed Canadian mortality improvement scales. He said their development relied primarily on population data because insured data was insufficient for that purpose. The most recent scale used a mortality model fitted to observed data and included judgment about the ultimate improvement rate. Howard explained that the scale is two-dimensional, with rates by attained age and calendar year. A user develops a generational table by multiplying one minus the applicable improvement rate for each successive year.

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2. Exposed Updated AG 53 Templates and Guidance

Jennifer Frasier (NAIC) walked through proposed changes to the year-end 2026 reporting templates and guidance for *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). Frasier said the instructions would request an explanation of how the AG 53 asset types map to the asset groupings used in the main asset adequacy testing report. Frasier said the asset summary tab would add more granularity to the types of asset categories. Other asset-backed securities (ABS) would remain reportable with a description. The new asset types would carry through the other tabs.

Frasier said the AG 53 guidance document was unchanged from the prior year except for three sections tied to the template revisions. The proposed changes would align the structured-asset discussion with the revised non-traditional assets tab, update an example involving user-defined column headings, and direct companies to use the latest templates available on the NAIC web page.

Hemphill exposed the updated AG 53 templates and guidance for a 21-day public comment period ending Sept. 30.

3. Exposed Draft AG 55 Guidance and Template Revisions

Andersen introduced draft guidance for year-end 2026 filings under *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). Andersen said the first year of reviews produced common questions, and the proposed guidance was intended to obtain responsive information with the initial filing. He said the draft addressed areas needing clarification, issues identified during reviews, and updates reflecting emerging trends.

Hemphill asked whether the guidance should address a case in which the reported post-reinsurance reserve equals the pre-reinsurance reserve, but there is no dedicated excess capital. She suggested the mandatory run might require an adjustment, or an alternative run might be required. Andersen said the issue had not been contemplated when AG 55 was developed and supported adding it to the draft for consideration, including whether it belonged in the guidance or a future revision to the guideline.

Carrie Haughawout (American Council of Life Insurers—ACLI) said the proposed AG 55 requests were significant and had drawn interest from functions outside the actuarial area. She requested additional time for stakeholder review and asked how requests related to risk-based capital (RBC), excess capital, and recapture scenarios fit within reserve adequacy analysis. Haughawout also asked about the role of the appointed actuary, coordination with broader company finance and risk functions, and coordination with the Life Risk-Based Capital (E) Working Group's work on counterparty credit and recapture risk. Andersen said the AG 55 effort was largely separate from the other work and encouraged specific written comments. Carmello requested that commenters identify the items they considered outside the actuarial scope.

Hemphill exposed the draft AG 55 guidance and template revisions for a 30-day public comment period ending Oct 9.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Life Actuarial (A) Task Force
E-Vote
September 3, 2026

The Life Actuarial (A) Task Force conducted an e-vote that concluded Sept. 3, 2026. The following Task Force members participated: Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Joshua Hershman represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Holly W. Lambert represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Marie Grant represented by Nour Benchaaboun (MD); Angela L. Nelson represented by William Leung (MO); Ned Gaines represented by Maile Campbell (NV); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted Revisions to the *Financial Analysis Handbook* and *Financial Condition Examiners Handbook*

The Life Actuarial (A) Task Force conducted an e-vote to consider adoption of the revisions to the *Financial Analysis Handbook* and *Financial Condition Examiners Handbook*.

Wolf made a motion, seconded by Carmello, to adopt the revisions (Attachment A). The motion passed unanimously.

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Life Actuarial (A) Task Force
Virtual Meeting
August 27, 2026

The Life Actuarial (A) Task Force met Aug. 27, 2026. The following Task Force members participated: Amanda Crawford, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler, represented by Sanjeev Chaudhuri (AL); Heather Carpenter represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Joshua Hershman represented by Wanchin Chou (CT); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Doug Ommen represented by Kevin Shaw (IA); Vicki Schmidt represented by Nicole Boyd (KS); Marie Grant represented by Nour Benchaaboun (MD); Julie Dreier represented by Fred Anderson (MN); Angela L. Nelson represented by William Leung (MO); Ned Gaines represented by Maile Campbell (NV); Susan Ochs represented by Michael Cebula (NJ); Kaitlin Asrow represented by William B. Carmello (NY); Judith L. French represented by Matt Elston (OH); Glen Mulready represented by Andy Schallhorn (OK); TK Keen represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston (PA); Carter Lawrence represented by Eric Scott (TN); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Discussed Feedback on the SOA's Development of a New VBT

Hemphill said that during the Task Force's Aug. 10 meeting at the Summer National Meeting, the Valuation Basic Table (VBT) Working Group of the Society of Actuaries (SOA) Mortality and Longevity Oversight Advisory Council (MLOAC) requested Task Force input on the direction of its work to develop a new VBT. The Task Force had previously advised the VBT Working Group to follow the data in setting granularity while also producing aggregate tables. The feedback request focused on four key areas: 1) applying data exclusions at younger ages, as well as at older ages for certain face amounts and issue years, where the data produced anomalous or counterintuitive patterns; 2) updating the level of granularity and splits of the tables in addition to the aggregate tables; 3) capping large face amounts that create anomalous spikes in the data; and 4) using the data-indicated select period of 20 years. Hemphill said that no written comments were received on the exposure.

Brian Bayerle (American Council of Life Insurers—ACLI) asked whether the SOA had considered adjustments to the COVID-19 pandemic mortality years, such as excess mortality adjustments, and how the post-pandemic 2023 and 2024 data would be used to validate any such adjustments. Mary Bahna-Nolan (SOA) said the SOA considered this early and found 2018 and 2019 more representative; adjusting the pandemic years would add another layer of judgment. Bahna-Nolan said the intent is to ignore 2020, 2021, and 2022. She said that because the 2023 data appears to be reverting toward a new normal, the SOA will use 2023 and possibly 2024 data to validate the model and adjust if larger differences emerge.

Bayerle asked how mortality improvement would be reflected in the new table, given that the underlying data would be drawn from pre-pandemic years, and improvement would be needed for the intervening years depending on the date of the table. Bahna-Nolan said the Working Group will draw on the logic used for the historical mortality improvement (HMI) and future mortality improvement (FMI) work rather than develop a separate approach, and that the starting date of the table must be determined before the experience can be trued up. Bahna-Nolan said that the SOA will revisit this item with the Task Force.

Bayerle asked for a rationale for the difference between the convergence to an omega rate of 0.55 in the exposure compared with 0.5 in the current VBT. Bahna-Nolan said 0.55 is the convergence at infinity, and it equates to

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approximately a 0.5 omega rate around age 110. The VBT Working Group is not recommending a change to the omega rate.

Bayerle said that a $1 million cap on face amount appeared low and asked whether higher caps had been considered, noting that a $5 million cap might be more reasonable. Bahna-Nolan said the SOA explored caps of $1 million, $2.5 million, and $5 million. She noted that the lower the cap, the less noise. However, she said the SOA has not yet determined a cap. She said an alternative to a cap would be to add a high face-amount band, but that would require more tables, which most of the VBT Working Group did not favor.

Bayerle asked whether the behavior of the lowest face amounts could be skewing the results of the lowest band and whether the VBT Working Group considered a floor. Hemphill said she would have expected a floor on face amounts to give smaller policies outsized weight, which sometimes behave differently. Bahna-Nolan said that the SOA now uses different face amount bands, which it did not have previously, and that it observed different behavior for other-than-term business, where lower face amounts are more common, than for term business. Bahna-Nolan said the SOA tested alternative breakpoints and that selected breakpoints appeared appropriate when considering credibility and stability of the data. Bahna-Nolan said the supporting analysis was shared when the SOA presented in March 2026 and could be pulled together again if interested parties wanted to review it.

Bayerle said the ACLI is generally supportive of the approach recommended by the SOA. Hemphill said the SOA materials clearly outlined the reasoning and the data driving each decision point. No Task Force members objected to the SOA proceeding with the discussed data exclusions, the updated granularity of the tables and the aggregate tables, the capping of large face amounts, and a 20-year select period.

2. Exposed APF 2026-07

Hemphill said she drafted amendment proposal form (APF) 2026-07 in response to questions from states about what companies should do under *Valuation Manual* (VM)-20, Requirements for Principle-Based Reserves for Life Products, when a non-prescribed scenario generator is needed to produce returns outside the scope of the published generator of economic scenarios (GOES) set. VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, contain guidance addressing the use of non-prescribed generators to supplement, rather than replace, GOES. The absence of the language in VM-20 led companies and states to ask whether the use of such returns should instead be treated as a simplification and how such a simplification would be supported.

APF 2026-07 adds language from VM-21 and VM-22 to VM-20 Section 7.G.2.b, which permits the use of a non-prescribed generator, provided the risk and return are consistent with the prescribed scenarios, and adds the corresponding reporting requirement to VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, which currently applies only to variable and non-variable annuities. The APF leverages language in VM-21, VM-22, and VM-31. Hemphill said these clarifying edits are intended to help companies distinguish between using a non-prescribed generator as a simplification that replaces GOES and using one to supplement GOES.

Reedy made a motion, seconded by Cheung, to expose APF 2026-07 for a 21-day public comment period ending Sept. 16th. The motion passed unanimously.

3. Report that it Met in Regulator-to-Regulator Session

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Hemphill stated the Task Force met Aug. 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff) of the NAIC Policy Statement on Open Meetings, to review reporting on specific companies and to receive advice from NAIC committee support.

4. Exposed an Alternative FMI Scale

Marianne Purushotham (SOA) provided an update on the HMI and FMI scale development. She proposed amendments to the materials exposed during the Task Force's Aug. 10 meeting at the Summer National Meeting.

Purushotham said the SOA Mortality Improvement Life Working Group (MILWG) applies a standard HMI and FMI methodology annually, and then it reviews data and leading indicators to determine whether actuarial judgment is warranted. Modest judgment was applied before the pandemic, while substantially more judgment was applied during the pandemic. The MILWG is again applying significant judgment as the recovery years enter the HMI calculation.

During the pandemic, SOA groups focusing on mortality and longevity work generally agreed that shock periods should affect expected mortality trends without carrying forward the full positive or negative shock. This principle guided adjustments to the first five projection years of the 2025 FMI scale. The MILWG initially considered the standard methodology reasonable for 2026 because the recovery shock was smaller than the deterioration shock. After the Task Force's Aug. 10 meeting at the Fall National Meeting, however, members sought to limit artificial year-over-year volatility and tested the 2025 approach for 2026. This alternative calculates HMI using the full history and then adjusts it to reflect the ongoing trend in the latest data. The standard methodology alone would likely create artificial volatility at deterioration-related ages.

Purushotham said that the MILWG decided to amend its recommendation to include an alternative considered a better representation of the ongoing recovery beginning in 2026 than the standard methodology result. The amendment recommends an alternative methodology only for ages 25 to 41, where ongoing and severe deterioration was observed during the pandemic years. For ages with no significant deterioration and no material volatility under the standard methodology, the recommendation is to use the values exposed during the Task Force's Aug. 10 meeting.

Purushotham said that the amended presentation would allow readers to understand the recommendation without the benefit of the talking points. The amended presentation, which includes the peer-reviewed sample ages, would be posted along with a revised spreadsheet covering all ages.

Hemphill exposed the amended presentation and revised scales for an additional 12-day comment period ending Sept. 8 for consideration by the Task Force on Sept. 10. Bayerle said the approach was reasonable. No Task Force members objected.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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November 2, 2026

From: Fred Andersen, Chair
The Experience Reporting (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Experience Reporting (A) Subgroup to the Life Actuarial (A) Task Force

The Experience Reporting (A) Subgroup has not met since the Summer National Meeting.

Upcoming projects include preparations for beginning a mandatory data collection of group annuity business. This data collection was defined in amendment proposal form (APF) 2024-12 which was approved by the Life Actuarial (A) Task Force on April 9, 2026 and adopted by NAIC's Executive Committee and Plenary during the NAIC Summer National Meeting. This data collection is scheduled to begin in 2027.

Additional upcoming projects include monitoring the plans for collecting life insurance mortality and policyholder behavior data using the NAIC as the statistical agent.

Finally, the Society of Actuaries' (SOA's) Mortality and Longevity Oversight Advisory Council has formed a group to draft an APF to expand the life data collection to include much of the business that is currently out of scope (e.g. simplified issue, accelerated underwriting, guaranteed issue, etc.). This group is continuing to meet on a regular basis.

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November 13, 2026

From: Mike Yanacheak, Chair
Tomasz Serbinowski, Vice-Chair
The Longevity Risk (E/A) Subgroup

To: Rachel Hemphill, Chair
Craig Chupp, Vice-Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Longevity Risk (E/A) Subgroup to the Life Actuarial (A) Task Force

The Longevity Risk (E/A) Subgroup last met July 28th, June 9th, and April 9th and took the following actions: 1) adopted prior meeting minutes; and 2) heard an American Academy of Actuaries presentation on its proposed 2026 work plan to develop longevity reinsurance C-2 capital factors intended for 2027 life risk-based capital.

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Agenda Item 2

Discuss Valuation Manual

Spreads and Defaults

Methodology

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2. Discuss Valuation Manual Spread and Defaults Methodology

NAIC Committee Support



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Agenda

1. Discuss Non-Monotonic Current Spreads Issue
2. Discuss Methodology Review and Applicability to Privates

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Non-Monotonic Current Spreads (Table F&G)

VM-20 Appendix 2, Section D

Current market benchmark spreads published by the NAIC are intended to represent average market spreads at the valuation date for public non-callable corporate bonds and interest rate swaps. They are used to establish the initial spread environment in the cash-flow model for purposes of modeling reinvestment assets and disinvestment and for modeling prescribed default costs.

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Non-Monotonic Current Spreads (Table F&G)

Issue: The Valuation Manual specifies that a "smoothing algorithm" be employed to ensure that:

1. The rows are monotonic by rating category, and
2. The investment grade columns are monotonic by maturity

- The NAIC does not have an established smoothing algorithm methodology ensure 1 & 2 above.
- The underlying data has been non-monotonic since May of this year.
- The NAIC needs guidance on an appropriate methodology for the smoothing algorithm.

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Non-Monotonic Current Spreads (Table F&G)

Table F (09/30/2026) Investment Grade Current Benchmark Spreads (in bps)

WAL	Investment Grade PBR Credit Rating									
(Weighted	1	2	3	4	5	6	7	8	9	10
Average Life	Aaa/AAA	Aa1/AA+	Aa2/AA	Aa3/AA-	A1/A+	A2/A	A3/A-	Baa1/BBB+	Baa2/BBB	Baa3/BBB-
1	13.25	20.31	27.36	33.08	38.79	44.51	53.83	63.14	72.46	116.31
2	13.86	23.44	33.02	39.19	45.37	51.54	60.73	69.92	79.10	119.63
3	14.46	26.57	38.68	45.31	51.94	58.56	67.63	76.69	85.75	122.96
4	15.07	29.70	44.34	51.42	58.51	65.59	74.53	83.46	92.40	126.28
5	15.97	32.52	49.07	56.09	63.11	70.13	79.20	88.27	97.35	128.75
6	16.87	35.34	53.81	60.76	67.71	74.67	83.88	93.09	102.30	131.23
7	20.78	39.33	57.87	64.97	72.07	79.18	88.49	97.81	107.13	133.64
8	24.70	43.31	61.92	69.18	76.43	83.68	93.11	102.53	111.96	136.06
9	28.62	47.30	65.98	73.38	80.79	88.19	97.73	107.26	116.79	138.48
10	30.28	48.90	67.51	74.34	81.17	88.00	97.73	107.46	117.18	138.67
11	31.95	50.49	69.03	75.29	81.55	87.81	97.73	107.65	117.57	138.87
12	33.61	52.09	70.56	76.25	81.93	87.61	97.73	107.85	117.96	139.06
13	35.27	53.68	72.09	77.20	82.31	87.42	97.73	108.04	118.36	139.26
14	36.94	55.28	73.62	78.15	82.69	87.23	97.73	108.24	118.75	139.45
15	38.60	56.87	75.14	79.11	83.07	87.04	97.74	108.44	119.14	139.65
16	40.27	58.47	76.67	80.06	83.45	86.84	97.74	108.63	119.53	139.84
17	41.93	60.06	78.20	81.02	83.83	86.65	97.74	108.83	119.92	140.04
18	43.59	61.66	79.73	81.97	84.21	86.46	97.74	109.02	120.31	140.24
19	45.26	63.25	81.25	82.92	84.59	86.26	97.74	109.22	120.70	140.43
20	46.92	64.85	82.78	83.88	84.97	86.07	97.74	109.42	121.09	140.63
21	48.58	66.45	84.31	84.83	85.35	85.88	97.75	109.61	121.48	140.82
22	50.25	68.04	85.83	85.79	85.74	85.69	97.75	109.81	121.87	141.02
23	51.91	69.64	87.36	86.74	86.12	85.49	97.75	110.01	122.26	141.21
24	53.58	71.23	88.89	87.69	86.50	85.30	97.75	110.20	122.65	141.41
25	55.24	72.83	90.42	88.65	86.88	85.11	97.75	110.40	123.04	141.60
26	56.90	74.42	91.94	89.60	87.26	84.91	97.75	110.59	123.43	141.80
27	58.57	76.02	93.47	90.55	87.64	84.72	97.76	110.79	123.83	141.99
28	60.23	77.61	95.00	91.51	88.02	84.53	97.76	110.99	124.22	142.19
29	61.89	79.21	96.53	92.46	88.40	84.34	97.76	111.18	124.61	142.38
30	63.56	80.81	98.05	93.42	88.78	84.14	97.76	111.38	125.00	142.58
Average	38.30	55.32	72.35	75.16	77.97	80.79	91.73	102.66	113.60	136.88

Actual Data Points

Non-Monotonistic across quality

Non-Monotonistic down maturity

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Questions

- Should current spreads be forced to be monotonic despite underlying data being non-monotonic?
  - If yes, what would be a good methodology to employ consistently?
  - If no, we might consider an APF for the 2028 VM to get rid of the language that implies the current spreads should be monotonic.
- Is this even material for companies?

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Methodology Review and Applicability to Privates

Background

- The Task Force made a request to the American Academy of Actuaries to review that the *Valuation Manual* default and spread methodology (originally developed in 2009) was still appropriate.
- The Academy noted that the methodology was still appropriate but suggested that the Task Force look into a potential revision of the alternative reinvestment guardrail and expansion of the default and spread methodology beyond public non-callable corporate bonds.
- After an exposure of the Academy's review, additional interested parties commented, including the American Council of Life Insurers and Risk Regulatory Consulting, suggesting that the framework be reviewed to consider how assets beyond public non-callable bonds should be handled.
- The Task Force subsequently directed NAIC Staff to look into whether an RFP could be developed to review the methodology or whether Conning could perform this role.

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Methodology Review and Applicability to Privates

Scope of Work

Step 1: Evaluate whether the VM-20 Prescribed Spread and Default Methodology reasonably determines "moderately adverse" (i.e., CTE(70) or 85th percentile) level net spreads

- The Academy has opined that this process is appropriate, but the ACLI suggested consideration of targeted refinements, asking:
  - Should a default table developed for corporate bonds apply to asset classes with materially different loss experience? (this is related to Part 2)
  - Should the levelized default cost approach be reconsidered? That is, should a CTE70-stressed default assumption, applied identically in every scenario, be paired with a reinvestment spread assumption reflecting only average conditions in that same scenario since historically defaults and spreads move together, not separately?
  - Should the recovery assumption be more granular?
  - Should the mapping of assets without Moody's ratings, including private loans and mortgages, be reviewed?

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Methodology Review and Applicability to Privates

Scope of Work

Step 2: Develop a recommendation for differentiating private vs. public fixed-income asset spreads and defaults

- For spreads, companies currently are allowed to set the spread on fixed income assets other than public non-callable corporate bonds "in a manner that is consistent with, and results in reasonable relationships to, the prescribed spreads for public non-callable corporate bonds". So, there is a lot of judgment there. Based on historical data and any other analysis, what is the reasonable range of spread for private over public, and what criteria (drivers) should regulators review when determining if that private-public spread is set in a reasonable manner for a given asset?
- For defaults, the Valuation Manual prescribes that the private fixed income assets use the same defaults that are based on historical public corporate bond data. Based on historical data and any other analysis, what is the reasonable range of difference in default rates and recoveries for private vs. public?

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Questions

1	**Definition of private assets:** Which asset segments should Step 2 cover, and how should "private" and "public" be defined for this analysis?
2	**Segmentation:** How granular should the private-public differentiation be, for example by asset type, rating, or structure?
3	**Required analysis:** Which comparisons or methodology changes should the consultant evaluate, and which public benchmarks, rating mappings, and historical periods should be used?
4	**Deliverables:** Is the proposed Step 2 [determining a reasonable range of private-over-public spreads, defaults, and recoveries] sufficient? Should it assess existing studies, produce new empirical estimates where credible data exist, recommend adjustments to prescribed assumptions, or provide a review framework?
5	**Ongoing role:** Should a consultant only develop the methodology, or also produce and update the results periodically for NAIC review?
6	**Timing:** Should Part 1 start now, while Part 2 is being defined?

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Agenda Item 3

Discuss the Work of the

GOES (E/A) Subgroup

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3. Discuss Work of the GOES (E/A) Subgroup

Mike Yanacheak, Chair, GOES (E/A) Subgroup



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Agenda

1. Updates to GOES Model Governance Framework Since Summer National Meeting
2. New Documentation
3. Next Steps
   a) Enhancements to NAIC Produced Statistics
   b) Timing of Year-End 2026 Scenario Delivery

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Updates to GOES Model Governance Framework

Background

- Each year, the GOES model governance framework will be exposed to provide interested parties an opportunity to consider how the framework is performing and provide feedback.
- A meeting of the GOES (E/A) Subgroup was held this past year in May to discuss NAIC Staff proposed revisions to the framework and expose for further comment. Comments were received and discussed at the NAIC's Summer National Meeting.
- After additional edits were made following the discussion at the Summer National Meeting, the latest model governance framework was exposed for a public comment period ending 11/4. No comments were received.

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Updates to GOES Model Governance Framework

Changes Since Summer National Meeting

- Section I.A - Overview Section
  - Overview section was recommended by the ACLI and clarifies objectives of the model governance framework along with operational performance
- Section II.D.2 - Scenario File Retention
  - Files will retained indefinitely and only removed with public notice. Erroneous files will be archived onto the GOES Sharepoint
- Section VI.A – Added scenario audit file including hashing
- Section VII.G – Added key performance metrics
- Section VIII.A – Added hashing to model change governance process

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Newly Posted Model Governance Templates

Model Inventory File

Contains details such as:
- Model Description
- Date of Last Model Update
- Model Owner
- Link to Model Documentation
- Risk Rating

Model Identification, Status, and Docum				
Model Inventory ID	Model Name	Model Description	Product Line(s) Using Model Output	M
GOES_001	Basic Data Set: Treasury Model Equity Model Corporate Bond Model	The Basic Data Set is the standard set of GEMS® scenario files ("GEMS Scenario Files"), customized to reflect any modifications adopted by state regulators to produce 10,000 real-world interest rate, equity, and bond fund return scenarios for use in calculations of life and annuity Statutory reserves according to the Valuation Manual (e.g., VM-20, VM-21) and capital under the NAIC RBC requirements (e.g., C3 Phase 1, C3 Phase 2).	Products under the scope of VM-20, VM-21, and VM-22 for reserves and C3 Phase I and II for capital	Ac
OES_002	SERT Tool	This tool generates scenarios for the Stochastic	Products under the scope	

Model Change Templates

Contains details such as:
- Technical details of model changes
- Summary of impact on model outputs
- Summary of model testing results

Change name	Change Type (Pick response from dropdown list)	Change description
GOES Model Governance Software Update - SERT Scenario Production	Cosmetic Update	Update to GEMS® So streamline stochasti

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Key PerformanceMetrics Tab in Model Findings Inventory

Key Performance Metrics						
Finding ID	Scheduled Publication Date	Actual Publication Date	Initial Publication Delay	Date(s) on which Errors were Identified in Published Data		
				Minor Errors	Major Errors	Regressions

Purpose: To provide performance metrics that detail how quick NAIC and Conning are able to address issues when publishing delays occur or errors are found in published scenario data.

Contains details such as:

- Scheduled Publication Date, Actual Publication Date, and Initial Publication delay
- Dates when errors were found in published data
- Whether or not the issue had occurred before (e.g. “Regression”)

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Newly Posted Documentation

- NAIC GOES Technical Documentation - Monthly Update Process
- NAIC GOES Technical Documentation - Bond Asset Class Construction
- NAIC GOES Technical Documentation - Basic Data Set Validation Report Summary

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Next Steps

Enhancements to GOES Statistics

- NAIC will be migrating from a SAS program to Snowflake for producing GOES statistics.
- This should significantly reduce the processing time to produce the statistics.
- Additional statistics will be added (e.g. T3.E yield curve steepness comparison to history) and longer projections (e.g. 100 years) will be included. NAIC staff is working with volunteers from the American Academy of Actuaries to ensure proper implementation.
- Once work is completed, new statistics workbook will be exposed for public comment.

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Next Steps

Delivery of Year-end 2026 GOES Scenarios

Conning and NAIC will plan on delivering 12/31/26 GOES scenarios by COB 1/2/27.

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Generator of Economic Scenarios (GOES) Model Governance Framework

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I. Background

A. Overview

The Generator of Economic Scenarios (GOES) is the model that produces scenarios for certain stochastic and deterministic reserve and capital calculations for life insurance and annuities. The requirements to use GOES can be found in the Valuation Manual and the NAIC RBC Instructions, both of which are available on the NAIC website (https://content.naic.org/publications/). GOES refers to whatever model the NAIC has selected for generating scenarios for these purposes as of the valuation date the calculations are performed; currently this is the GEMS® Economic Scenario Generator developed by Conning. Regardless of the model used, GOES is a function of the NAIC and is managed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup.

On the first business day of each month, 10,000 economic scenarios produced by GOES are made available for download from the from the Conning website (https://naic.conning.com/). Conning and NAIC staff review and signoff on the scenario output if no issues are found. When scenarios have been reviewed and approved, Conning publishes them to the website and NAIC staff send an email to the GOES (E/A) Subgroup distribution list announcing the new scenario data once the posted scenarios and associated files have been confirmed.

If scenarios aren't published on schedule, the GOES (E/A) Subgroup will provide an estimated timeframe for when they will be available. This is most likely due to a validation issue identified in the pre-release review process. If a significant delay (more than one business day) is expected, the Subgroup may instruct companies to use the prior month-end scenarios with adjustments as necessary. A significant delay would be followed by incident documentation (see "Process for Handling Model Findings") as well as process and model governance enhancements to prevent future incidents.

If there is a major error in published scenario data, it will be addressed immediately; minor errors will be addressed between months. As with a delay, a timeline and a fallback plan will be developed. Any errors will be followed by incident documentation and changes to the model, process, and governance as needed to prevent future errors.

GOES is recognized as a key input for life and annuity valuations, so significant delays and major errors may be treated as emergencies. There may be a call for quick public discussion of an issue, especially if it occurs at year-end, where it will be important to get input from both regulators and industry. If needed, the Life Actuarial (A) Task Force may consider a "Waiver of Task Force Procedure" as outlined in the *Valuation Manual*.

The model and this governance framework will both be maintained with routine reviews. The model calibration will be reviewed at least annually, and a full recalibration will be performed at

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least every five years. This framework will be reviewed and updated annually. Routine changes to the model, the processes surrounding it, and this framework will be exposed for comments following the normal NAIC process.

~~A.~~B. Purpose of the GOES Model Governance Framework

The Generator of Economic Scenarios (GOES) Model Governance Framework is designed to mitigate risk by providing governance and controls for models producing scenarios used in calculations of life and annuity Statutory reserves according to the *Valuation Manual* (VM-20, VM-21, and VM-22) and capital under the NAIC RBC requirements (C3 Phase 1, C3 Phase 2). The requirements of the Model Governance Framework also apply to ancillary tools (e.g. scenario selection tool) and models that produce scenario statistics.

Actuarial Standard of Practice No. 56, *Modeling* (ASOP No. 56) defines **Model Risk** as "The risk of adverse consequences resulting from reliance on a model that does not adequately represent that which is being modeled, or the risk of misuse or misinterpretation."

The ASOP No. 56 defines **Governance and Controls** as "The application of a set of procedures and an organizational structure designed to reduce the risk that the model output is not reliably calculated or not utilized as intended," and states that the actuary should use, or, if appropriate, may rely on others to use, reasonable governance and controls to mitigate model risk.

This document is intended to provide a comprehensive governance framework including appropriate controls, monitoring, and oversight to ensure the quality of the GOES models so they can be trusted and relied upon for their intended use.

~~B.~~C. Importance of a Model Governance Framework

A model governance framework is critically important for the GOES and ancillary tools for several reasons:

1. Many companies will be using the GOES scenarios, and they may have a material financial impact.

2. The framework will implement and provide documentation of controls designed to prevent or mitigate human error.

3. The transparency of the framework should aid in understanding any model limitations, so that conclusions drawn from model results are properly informed.

4. The framework should ensure that models meet their intended purpose. ASOP No. 56 defines **Intended Purpose** as "The goal or question, whether

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generalized or specific, addressed by the model within the context of the assignment." Section 3.1.2 of the ASOP states that "When selecting, reviewing, or evaluating the model, the actuary should confirm that, in the actuary's professional judgment, the model reasonably meets the intended purpose."

The framework includes a process for model selection and scheduled reviews. There are also off-cycle reviews (where necessary) intended to ensure that models continue to meet their intended purpose throughout their life cycles.

5. The framework should improve efficiency, avoiding re-work and confusion regarding expectations. Documented processes and procedures will enable model developers and reviewers to implement changes more quickly.

6. There is a possibility that unexpected issues will occur, despite best efforts. The framework provides a process for identification, escalation, and resolution of issues if they arise.

~~C.~~D. Components of the GOES Model Governance Framework

Components of the Model Governance Framework include:

1. Roles and Responsibilities
   The roles and responsibilities of all stakeholders involved in the implementation and maintenance of the model are documented (see Sections II and III). Parties are designated to act as Model User, model developer, model owner, and model steward. In addition, there is a model governance oversight function. The roles and responsibilities include separation of duties where appropriate. One of the key aspects of a successful governance function is that it is independent.

2. Signoff Protocols
   Model controls and other items requiring signoffs are identified (see Section II.B), along with the parties responsible.

3. Risk-Ranked Model Inventory
   All models are catalogued and ranked according to their risk (see Section IV). This is intended to ensure the time and effort required for compliance with governance standards is consistent with each model's risk level. Generally, the most robust validation procedures will apply to the riskiest models, while less rigorous methods (e.g. peer review) may apply to those that have less risk.

4. Model Selection and Validation Processes

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Section V includes criteria for model selection along with details on the model validation process and independent review.

5. Scheduled and Off-Cycle Model Updates
   Section VI provides details on routine, scheduled monthly and annual updates, as well as off-cycle model updates.

6. Process for Handling Model Findings
   Section VII provides a process for identification, escalation, and resolution of issues if they arise.

7. Change Management Process
   The change management process includes procedures to ensure that model change requests are documented, communicated, prioritized, formally approved, and implemented in a controlled manner (see Section VIII).

8. Documentation
   Various forms of documentation are required throughout the governance process (see Section IX).

9. Access Controls
   To avoid the possibility of unauthorized changes, write access to models and model governance spreadsheets (e.g. model inventory file) is granted only to individuals requiring access. Section X provides details on the level of access granted to stakeholders (i.e. Read, Write, or No Access).

II. Governance Roles and Sign-off Protocols

A. Governance Roles

For the GOES Model Governance Framework, parties are designated to serve the roles of model developer, model owner, and model steward. There is also a model governance oversight function. High-level descriptions of the responsibilities of each party are shown in the table below.

There are additional stakeholders involved in the implementation and maintenance of the models (e.g. Model Users). See Section III for details on all stakeholder responsibilities, including key deliverables.

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Role	High-Level Responsibilities
Model Developer: Conning's GEMS® Software Development Team	The GEMS® software development team will incorporate change requests from the Model Steward into the GEMS® software and will be responsible for all ongoing GEMS® maintenance. Conning is also responsible for developing and maintaining ancillary tools, including the scenario selection tool and utility to produce statistics. The model developer role will also be responsible for performing model validation, managing modeling environments, conducting testing of model changes, and completing change request documentation.
Model Owner: Conning's Professional Services Team	Conning's Professional Services team will own the model and the production environment, ensuring that monthly models are properly parameterized and calibrated, and that results and associated analyses are available on a timely basis. This team will utilize GEMS® automation features and commonly available tools to develop and maintain the automated monthly workflow. The Professional Services team will communicate requirements to the Model Developer, perform user-acceptance testing of any new code required for software to meet NAIC model specifications, and design and oversee the monthly production process. Conning's scenario file production processes are organized such that: 1) each process has a primary owner and a designated reviewer; 2) model updates and processes are automated where practical to do so; 3) reviewers use GEMS® native change management and audit tools to independently verify model updates and processes; and 4) scenario summaries and reports illustrate the reasonableness of results.
Model Steward: GOES (E/A) Subgroup, with NAIC Staff Support	The GOES (E/A) Subgroup manages the development of the GOES model, ensures that the model governance framework is followed and that models meet standards set by the NAIC and is fit for use. The GOES (E/A) Subgroup requests any changes to the GOES to meet regulatory objectives, with input from interested parties. Meetings of the GOES (E/A) Subgroup are attended by member regulators, NAIC staff, interested parties, and representatives from the ACLI and

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	American Academy of Actuaries, which include subject matter experts. NAIC staff supports the GOES (E/A) Subgroup as noted throughout this document (e.g. reviewing controls, independently producing and reviewing monthly scenario statistics, maintaining the model inventory and other spreadsheet governance tools, etc.).
Model Oversight Group: GOES (E/A) Subgroup and NAIC Committee Structure	The GOES (E/A) Subgroup has oversight responsibilities and reports to other groups in the NAIC Committee Structure that provide further oversight as described in Section III.A.
Model User: US Insurance Organizations, State Insurance Regulators	Model Users report issues to GOES (E/A) Subgroup and request enhancements. When changes are made to the GOES (e.g. 5-year review and recalibration), Model Users volunteer for field testing/User Acceptance Testing.

B. Sign-Off Protocols

For routine model updates necessary for monthly scenario production, as well as routine annual changes (if any), Conning and NAIC staff have signoff responsibilities as described in the table below. All other model updates require additional signoff from the GOES (E/A) Subgroup.

Party	**Sign-Off Responsibilities**
Conning	Reviews and signs off on: 1. Model access controls, ensuring that only individuals authorized to work on the models have access. 2. Inclusion controls, ensuring that data inputs to the model are complete and have been updated as required. 3. Change management controls for all model updates, with appropriate separation of duties (i.e. signoff from development team to advance the model from the development environment to the testing environment; signoff from the testing team that testing was completed and reviewed; and signoff that the tested model was moved successfully to the production environment). 4. Model validations. 5. Attestation document will be provided to NAIC staff that the above controls were performed, along with any findings. The attestation document will include initials beside each control to indicate signoff. See Section VII for details on how findings will be handled.
NAIC Staff	NAIC staff produces scenario statistics independently (including acceptance criteria), reviews, and provides sign off via email to

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	Conning that scenarios are acceptable and ready to be posted to the Conning website for use by Model Users. Documentation of the NAIC produced statistics and how they are calculated is available at ~~https://naic.conning.com/documentation [link TBD]~~. NAIC staff will also check that the intended scenarios were correctly posted on Conning's website. The NAIC's scenario review workpapers will be ~~provided~~available for no fewer than five years.
GOES (E/A) Subgroup	Reviews and signs off on: 1. All material non-routine updates to the model, such as model recalibrations. 2. Any changes to acceptance criteria. 3. Any changes to the GOES Model Governance Framework. Ahead of changes to any of the three items above, public exposure of changes will occur followed by adoptions in a public meeting. Communications of changes will occur through the GOES (E/A) Subgroup distribution list.
NAIC Committee Structure	Reviews and adopts *Valuation Manual* amendments and changes to RBC instructions.

C. Fallback Plan

A fallback plan can define expectations in the event of a disruption to the monthly scenario generation, validation, and publication process. While not all circumstances that could lead to a disruption in the posting of scenario files can be foreseen, this section will lay out broad categories of potential causes of disruption along with a corresponding mitigation plan.

1. Quarter-End and Year-End Scenario Files
    a. Quarterly and Year-end scenario files have greater importance to insurance company financial reporting. Therefore, more robust fallback procedures will apply to the posting of these quarter-end and year-end files.
    b. For month-end scenario files that do not fall on a quarter- or year-end, any delays to the posting of scenario files will be communicated along with an expected timeframe for resolution.
2. Communication of Scenario File Posting Disruption
    a. The distribution list for the GOES (E/A) Subgroup will be utilized to communicate disruptions in the posting of scenario files.
    b. All members, interested regulators, and interested parties will receive notice of the disruption.
3. Mitigation Plans by Category of Disruption

Category	**Description**	**Mitigation Plan**

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Minor Validation Error – Caught Prior to Posting	This situation would occur when an issue was found during the validation process by either Conning or the NAIC and the issue could be addressed such that scenarios could be posted by the second business day following the previous month-end.	NAIC Staff would communicate the issue as soon as it is discovered on the first business day following the month-end, along with a timeframe for when scenarios are expected to be posted.
Major Validation Error – Caught Prior to Posting	This situation would occur when an issue was found during the validation process by either Conning or the NAIC that is unable to be addressed such that scenarios can be posted by the second business day following month-end.	NAIC Staff would communicate the issue as soon as it is discovered on the first business day following the month-end. Companies would be instructed to utilize prior month-end scenarios with adjustments as necessary for the current month's valuation. Model governance enhancements to avoid the issue would be developed, adopted by LATF and the LRBC WG, and implemented following the issue.
Minor Scenario Error – Caught after Posting	This issue could occur when a user of the scenarios discovers an error with the scenario set after they have been posted to the scenario website that is expected to have an immaterial impact on company valuations.	NAIC Staff would communicate the issue as soon as it is discovered. Model governance enhancements to avoid the issue would be developed, adopted by LATF and the LRBC WG, and implemented following the issue.
Major Scenario Error – Caught after Posting	This issue could occur when a user of the scenarios discovers an error with the scenario set after they have been posted to the scenario website that is expected to have a material impact to company valuations.	NAIC Staff would communicate the issue as soon as it is discovered. A meeting of the GOES (E/A) Subgroup would be scheduled to fully disclose the issue and discuss potential remedies. If the scenario set fell on a quarter- or year-end, additional guidance may be given by regulators to address the handling of the error (e.g. guidance to estimate a top-side adjustment to reserves, utilize a scenario set from a previous month). Model governance enhancements to avoid the issue would be developed, adopted by LATF and the LRBC WG, and implemented following the issue.
Conning Scenario Website Down	The website https://naic.conning.com/scenariofiles is down and companies are unable to download scenario files.	NAIC Staff would communicate the issue as soon as it is discovered. Scenario files could be posted to the GOES SharePpoint site as an alternative for companies to download. Model users can request access to the GOES SharePoint by contacting soneal@naic.org.

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Conning unable to generate scenario files	Conning is unable to generate scenario files due to and issue such as cloud outage or other business continuity event.	NAIC Staff would communicate the issue as soon as it is discovered, and a revised timeline for posting scenarios could be provided. The GEMS® software would be used by NAIC Staff to generate the scenarios.

III. Stakeholder Responsibilities

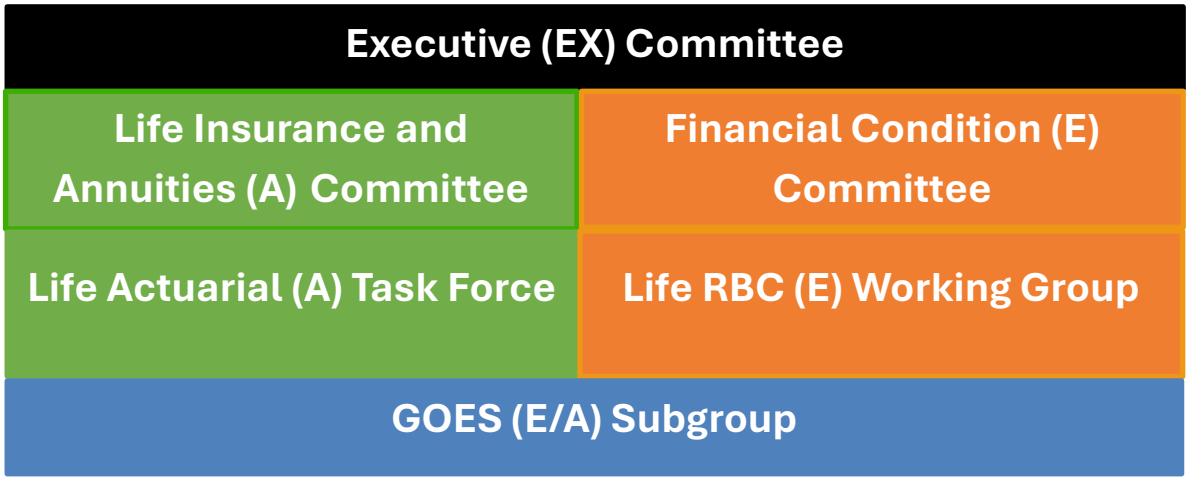
A number of stakeholders are involved in the implementation and maintenance of the model. Specific responsibilities are described in this Section.

A. NAIC Committee Structure

The NAIC Committee structure is shown in the graphic below. The GOES (E/A) Subgroup's roles and responsibilities are discussed in Section III.B. The Subgroup is subordinate to both the Life Actuarial (A) Task Force (LATF) and the Life RBC (E) Working Group (LRBCWG).

The Life Insurance and Annuities (A) Committee is the parent committee for LATF, while the Financial Condition (E) Committee is the parent committee for LRBCWG. Recommended changes to the *Valuation Manual* and Life RBC Blanks/Instructions related to the GOES will be considered for adoption by LATF and LRBCWG before being considered by their respective parent committees.

In addition to having final approval on changes adopted by the subordinate groups, the Executive (EX) Committee has allocated funding to support the NAIC GOES initiative.



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B. GOES (E/A) Subgroup

The GOES (E/A) Subgroup will own the GOES Model Governance Framework and be responsible for the approval of all updates to the Framework. As the Model Steward, tthe Subgroup will direct NAIC Staff as necessary to effectuate aspects of the Framework. The Subgroup will organize public calls where technical issues can be discussed and feedback can be received from Subgroup members, interested regulators and interested parties. All regulator-only sessions will follow the NAIC's Policy Statement on Open meetings.

The Subgroup has the following 2026 Charges:

1. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.

2. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.

3. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.

4. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.

5. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

C. NAIC Staff

NAIC staff responsibilities are as follows:

1. Act under the direction of the GOES (E/A) Subgroup to support the implementation of the economic scenario generator as well as implement and monitor the model governance framework.

2. Bring any governance issues to the GOES (E/A) Subgroup for consideration.

3. Monitor the effectiveness of Conning's controls and validation procedures and recommend changes to the GOES (E/A) Subgroup as necessary.

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4. Develop and maintain a process to efficiently produce and review scenario statistics (independent from Conning) for each monthly scenario release to evaluate whether scenarios are acceptable before providing them to Model Users.

D. GOES Vendor (Conning)

Under the terms of the Professional Services Agreement Between Conning, Inc. and the National Association of Insurance Commissioners, Effective September 30, 2020, Conning has responsibility for model development, routine and more extensive model updates, monthly production of scenarios, maintenance of documentation, user support, and other items. Conning's specific responsibilities are described below.

1. Customization of the Models

   Conning will customize the GEMS Scenario Files features and calibration of parameters to reflect any modifications adopted by state regulators to produce real-world interest rate, equity, and bond fund return scenarios for use in calculations of life and annuity Statutory reserves according to the *Valuation Manual* (e.g., VM-20, VM-21, VM-22) and capital under the NAIC RBC requirements (e.g., C3 Phase 1, C3 Phase 2). The resulting customized scenario files are referred to as the Basic Data Set. Scenario sets produced from the Basic Data Set are referred to as the NAIC Economic Scenario Files.

2. Maintenance of Conning Scenario Website and Document Retention

   The NAIC website will contain a link to the Basic Data Set, validation reports, statistics, related tools, documentation, and training materials located on Conning's website. Access will be provided for Model Users regardless of whether they have licensed Conning's software. Model Users means users of the scenarios, including NAIC staff, state regulators, insurance companies, third-party consultants retained by state regulators and insurance companies, and any other person who makes use of the scenarios. Any published GOES scenarios or tools, including test files, will remain publicly available until further notice. Before removing access to any published files, the GOES (E/A) Subgroup will have a public notice and exposure. However, one exception to this retention policy will be made in the case of erroneous scenario files, tools, statistics, documentation, and other related files. Erroneous files will be corrected at the earliest opportunity by the NAIC and Conning but will be archived on the NAIC's GOES SharePoint site.

3. Monthly Production of Scenarios, Scenario Statistics, and Validation Reports

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The month-end production items Conning is responsible for are listed in the Model Inventory File (see Section IV.C). The production process must be completed in time to post these deliverables by 4:00 PM Central Time on the first business day of the following month.

Companies have stressed the importance of meeting this deadline so that valuation work will not be delayed. Conning and NAIC staff will collaborate on creating efficiencies to prepare for this. The process of producing and reviewing all monthly deliverables, including execution of controls, will be tested and practiced before the GOES scenarios are adopted and become effective, with monthly scenario releases planned to begin 10/1/25 .

Validation reports and additional statistics are expected to be delivered simultaneously with the NAIC Economic Scenario Files. A "dashboard" of how the scenarios compare with acceptance criteria will be included with the statistical reports. See Section V.B for details on the validation process. A sample set of reports will be shown in Appendix A.

Conning will sign off on the controls listed in Section II.B and provide an attestation to NAIC Staff that they were performed, identifying any findings. NAIC Staff will produce and review statistics independently, and review the reports, attestation, and findings to determine whether the scenario set is acceptable. This must be done before posting the scenario files and validation report with each monthly scenario release.

10,000 scenario sets will be posted alongside the scenario selection tool and scenario picking data to allow Model Users to produce subsets. As background, Conning developed an Excel-based tool to create scenario subsets. The tool can select scenarios based on the same methodology used in the AIRG (i.e. based on a significance measure calculated from the 20-year UST) or a gross wealth factor (GWF) based on the Large Cap (S&P 500) equity fund. However, other methodologies to select scenarios may be more appropriate for companies exposed to other risks. For example, a writer of VA products may be more exposed to equity risk. The VM allows companies to use alternative scenario selection methodologies if they meet certain requirements (e.g. documentation that reserves and TAR are not materially understated) or biased downward.

Conning can calculate the UST significance measure and the Large Cap gross wealth factors by scenario and provide that information with each scenario set to use as inputs for the tool.

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In the event a scenario set is deemed unacceptable, NAIC staff and Conning will work together to resolve the matter and provide timely communications to stakeholders according to the Fallback Plan documented in section II.C.

4. Parameter Updates

   Conning will develop parameter updates at a frequency determined by the GOES SG. The steps in this process are outlined in Section VI.

5. Documentation

   Conning will provide documentation as described in Section IX.

6. Training Materials

   Conning will provide robust training materials for use by Model Users and update these materials periodically as needed.

7. User Support
   Conning will provide help desk support to Model Users of the NAIC Economic Scenario Files who have not licensed the software. This will include phone support as well as e-mail at **naicscenarios@conning.com** to allow the NAIC, state regulators and other Model Users to submit questions.

8. Field Testing

   Conning will provide necessary support for field testing of the NAIC Economic Scenario Files under regulatory reserving and capital frameworks. Additional field testing could be necessary if a large change is made to the GOES (e.g. five-year recalibration) or if significant changes are made to an NAIC reserve or capital framework.

9. Additional Information to be Provided Annually

   Conning will provide the following information annually:

   a. Back-testing report comparing the NAIC Economic Scenario Files projected results to what actually happened over the previous year.

   b. Summary information of the number and types of questions submitted to Conning via the support e-mail address, and steps taken to address these concerns (e.g., additional documentation created).

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E. Subject Matter Experts and Interested Parties

Subject matter experts and interested parties play an important role in model governance. Industry involvement is critical, as companies will be users of model output and thus could identify issues, propose solutions and scope out testing that may not be readily apparent to regulators and NAIC staff.

Activities may include but are not limited to:

1. Bringing any model or governance issues to the GOES (E/A) Subgroup for consideration.

2. Reporting any issues with scenario delivery and user support to the GOES (E/A) Subgroup and NAIC Staff.

3. Reviewing results of planned model updates (see Section VI.A – VI.C) and providing independent feedback in public sessions of the GOES (E/A) Subgroup.

4. Recommending off-cycle model recalibrations where necessary (see Section VI.D), reviewing the results, and providing independent feedback in public sessions of the GOES (E/A) Subgroup.

IV. Models Subject to the GOES Model Governance Framework

A. Model Definition

ASOP No. 56 defines a model as follows:

"A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, non-quantitative, or scientific concepts and equations. A **model** consists of three components: an information **input** component, which delivers **data** and **assumptions** to the **model**, a processing component, which transforms **input** into **output**, and a results component, which translates the **output** into useful business information."

Under this definition, all items listed in the Model Inventory File (see Section IV.C) are models.

B. Model Risk Rating

The GOES (E/A) Subgroup assigns models a risk rating (high, medium, or low) depending on their complexity and materiality in terms of financial impact. Any models classified as high risk are subject to all aspects of model governance, while those classified as lower risk may be subject to more limited requirements. This risk-based focus promotes efficiency.

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At this time, all models listed in the Model Inventory File are ranked as high risk for the following reasons:

1. The life insurance industry, regulators, and other stakeholders rely on the model output for reserve and capital calculations and issues with the GOES are therefore systemic.
2. Model errors may cause material financial impacts.
3. The models are highly complex.

C. Model Inventory File

The Model Inventory File is an Excel spreadsheet listing each model subject to the GOES Model Governance Framework, along with the following details:

1. Model ID number
2. Model name
3. Model description
4. Product lines using the model output
5. Model status (active or inactive)
6. Model history, including the date of the last model validation and the date of the last model update
7. A link to model documentation, along with the date of the last documentation update
8. Ownership details (Model Developer, Model Owner, and Model Steward) and key point of contact
9. Risk rating of the model (high, medium, or low) and rationale for the rating

The Model Inventory File will be available on the NAIC website (https://naic.conning.com/documentation ~~location TBD~~). A sample file will be provided in Appendix B. The file will include the following models:

- Models producing the Basic Data Set (Treasury, Equity, and Corporate Bond models)
- SERT tool
- Scenario selection tool
- Conning scenario statistics tool
- NAIC scenario statistics tool

NAIC staff will have access to edit the Model Inventory File. Other model stakeholders will have Read access to the file.

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The Model Inventory File will be updated whenever there is a new model, whenever a model is retired, and any time there is a change in one or more of the model details shown above.

V. Model Selection and Validation Process

A. Process and Criteria for Model Selection

The process for model selection is intended to ensure that each model meets its intended purpose. Models producing Treasury, equity, and corporate bond scenarios are selected based on the following considerations:

1. Stylized Facts
   Stylized facts describe qualitative criteria that scenarios produced by the GOES Treasury, Equity, and Corporate Bond models should achieve. A link to the current set of stylized facts is provided in Appendix B.

2. Acceptance Criteria
   Acceptance Criteria are quantitative metrics that Treasury, Equity, and Corporate Bond scenarios generally should pass to be considered fit for their intended purpose. If one or more metrics fail the criteria, it may indicate that a revision to the model is necessary. However, judgment is required in making this decision. A criterion overall is not necessarily failed just because some subset of a table of criteria are outside their targets. A link to the current set of Acceptance Criteria is provided in Appendix B.

3. Model Office Testing
   To aid in the initial selection of the Treasury, Equity, and Corporate Bond models, model office testing was done for Variable Annuities, Universal Life with Secondary Guarantees, and Term Life.

   The GOES (E/A) Subgroup may consider the use of model office testing prior to implementation of material model updates.

4. Industry Field Testing
   To aid in the initial selection of the Treasury, Equity, and Corporate Bond models, two industry field tests were done.

   The GOES (E/A) Subgroup may consider industry field testing prior to implementation of material model updates. However, model office testing may be determined to be preferable depending on the resources, time, and cost required for a field test.

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B. Model Validation

Conning and NAIC Staff will perform validation procedures on all models used to produce output used in company on a monthly basis to ensure that model output is accurate. Any findings that arise from the model validation process will be handled as described in Section VII.

Key components of model validation include:

1. Input Validation
   Input validation may include a review of source data, review of the initial treasury curve fit, assumption benchmarking, month-to-month model parameter comparisons, and spot checking.

2. Calculation Validation
   Validation of calculations may include an independent full model replication, independent sample calculations, process approximation, formula inspection, testing of interim calculations, and testing of results. In addition to the Model Developer's calculation validation, the Model Owner will perform user acceptance testing for any software modifications required to implement the NAIC model.

3. Output Validation
   Output will be validated based on reports produced monthly along with the scenario sets (see Appendix A for sample reports). NAIC Staff will produce a "dashboard" included with the scenario statistics to compare the acceptance criteria and stylized facts, where relevant to monthly validation, to summarized scenario output. Thresholds and modifications to acceptance criteria for alternative starting environments will be considered as a "Day II" item after the initial implementation of the GOES.

   When the GOES is recalibrated (e.g. resulting from five-year recalibration), scenario sets under multiple, varied, starting environments will be produced. The resulting statistical packages will be created and shared publicly ahead of approval of the new calibration.

4. An evaluation of the effectiveness of model testing procedures

5. Validation of controls and procedures
   A detailed form including checklists and names of owners and reviewers for each key step will be used to ensure compliance with the sign-off responsibilities documented in Section II A.

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VI. Model Updates and Review

This section describes the types of scheduled model changes that will occur monthly, annually, and every 5 years, as well as off-cycle model changes. All model changes are subject to the change management process detailed in Section VIII.

A. Monthly Model Updates

The Treasury model will be updated monthly to reflect starting conditions. This is documented in the interest rate model technical documentation ([https://naic.conning.com/documentation ~~GOES Model Documentation Placeholder~~)]. Initial values for equity indices, equity volatilities, and corporate spreads will also be updated monthly. For audit purposes the SHA256 hash of the scenario data will be calculated and a file with valuation date, software version number, date posted, model governance framework version, and scenario file version will be posted alongside the scenarios and associated files.

B. Annual Model Review and Update (If Necessary)

At the beginning of each year, Conning and NAIC Staff will undertake an annual review of the GOES and provide a back-testing report comparing the projected results to the actual previous year's data. Model findings that occurred over the past year would be included in the review along with an associated recommendation. Conning and NAIC Staff will make a recommendation as to whether the model parameters should be revised or left unchanged. The back-testing report, along with the recommendation, will be posted on the NAIC/Conning scenario website in the first quarter of the year and provided to GOES (E/A) Subgroup leadership. If there is a recommendation to change the model parameters, a public discussion of the GOES (E/A) Subgroup will be called to discuss and determine a course of action. More complex changes, such as changes to the model form, are outside the scope of the annual model review.

Updates to the GEMS® software version used to produce the monthly GOES scenarios will also be considered during the annual review process. As part of Conning's normal course of business, they fix bugs and/or make enhancements to their software on a roughly monthly basis. However, all clients have the option of running previous versions of the software. During the annual process, Conning and NAIC Staff will perform testing of the GOES using the latest version of the software to determine whether there were any impacts to the scenarios. Results of the software version testing along with a recommendation on acceptance of a new version of the software will be posted to the NAIC/Conning Scenario website and provided to the leadership of the GOES (E/A) Subgroup. If there are any changes to the scenarios as the result of the software update, a meeting of the GOES (E/A) Subgroup would be held to discuss and determine a course of action.

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To facilitate user acceptance testing, scenario sets using both the proposed and current GOES parameterization would be provided, with no fewer than 30 days granted for interested parties to provide comment. NAIC Staff will also prepare model office analyses to quantify the impact from annual model updates. All changes resulting from the annual model review would be targeted to go into effect for the June month-end.

C. 5-Year Model Recalibration

Conning will perform a periodic GOES recalibration process every five years. This will include the following steps:

1. Conning will conduct research on potential changes as requested by state regulators.

2. Conning will document and present potential changes to state regulators for exposure and adoption, and attend meetings as needed to respond to questions/comments received during the exposure period no less than 30 days. Materials to be provided for consideration of changes should include:

    a. discussion on how changes were vetted for complex interactions between parameters,

    b. attribution analysis showing the impact of each change,

    c. model office analysis to understand the potential impact prepared by NAIC Staff, and

    d. documentation on the above in sufficient detail to allow independent review.

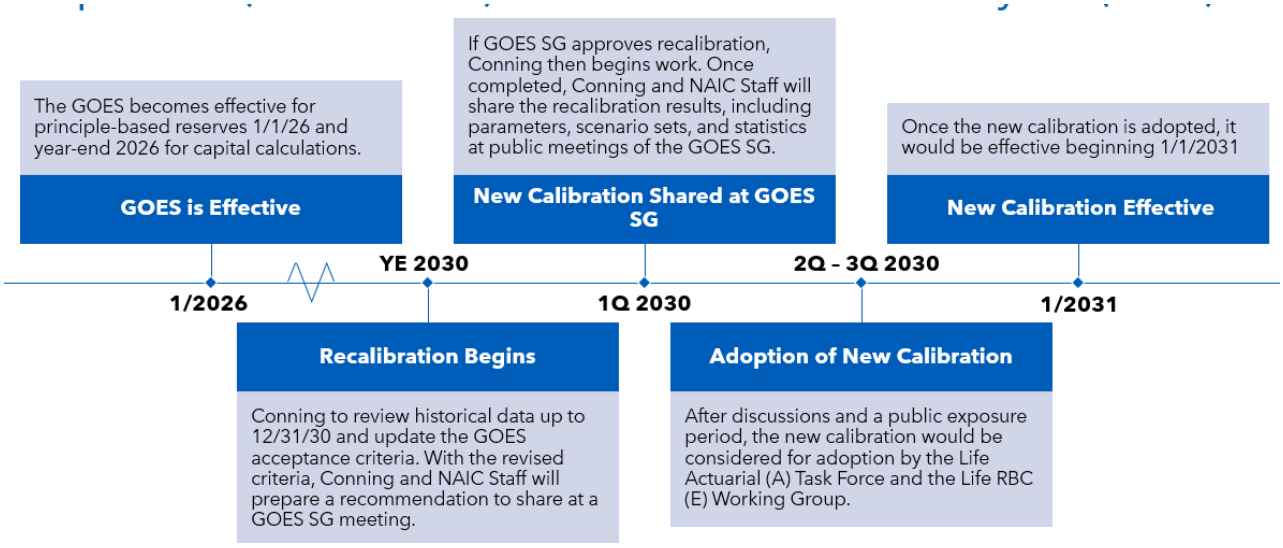
3. After discussion and approval at the GOES (E/A) Subgroup, the new calibration will be considered for adoption by the Life Actuarial (A) Task Force and the Life RBC (E) Working Group prior to going into effect at the beginning of a new 5-year recalibration cycle. As part of the approval process, the GOES (E/A) Subgroup, Life RBC (E) Working Group, and Life Actuarial (A) Task Force will consider whether the model is still fit for purpose.

4. NAIC staff will modify model governance documents (Appendix B) as needed to reflect final adopted updates in a timely manner. Conning will provide evidence to the NAIC that changes were made appropriately.

5. Conning will update documentation impacted by any changes.

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Exhibit 5.C: 5-Year Recalibration Cycle



D. Off-Cycle Model Updates

As noted in Section III.B, one of the charges of the GOES (E/A) Subgroup is to review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates. The process for off-cycle model updates would be similar to that of the 5-year model recalibration, with Conning performing research and preparing a recommendation followed by public discussions, exposures, and necessary approvals by the Life RBC (E) Working Group and the Life Actuarial (A) Task Force.

Items that may trigger an off-cycle update include, but are not limited to the following:

- A significant change in economic conditions
- A change in Federal Reserve policy
- Model findings
- Failure to meet a certain number or type of acceptance criteria, a trend towards failure of meeting an acceptance criterion, or GOES (E/A) Subgroup directed revisions to acceptance criteria.
- Change in insurance product offerings available on the market that requires new GOES functionality or emphasis on certain risk drivers.

E. Model Update Oversight

As noted in Section III.B, one of the charges of the GOES (E/A) Subgroup is to review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.

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F. Software Update Procedures and Controls

Conning's formalized development process incorporates current philosophy regarding quality assurance and good engineering practices. Each step of Conning's process is formalized and monitored to ensure that our functionality is efficient and error-free. Requirements are carefully outlined, and the results are reviewed to confirm that each has been addressed. Conning goes through many iterations of testing and development to ensure that software updates achieve the goals that we have set forth.

Development of new functionality is governed by a product planning process that incorporates feedback from the marketplace, commitments made to customers and prospects, and internally generated enhancement ideas. These enhancements are prioritized to determine release content and a release calendar. Fixing bugs takes priority over new development when allocating resources.

All bug reports and enhancement requests are managed using software project management and service desk tools, regardless of whether the requests are coming from customers, prospects, internal software testing, or the product planning process. The tools support issue tracking and agile project management, helping Conning plan, track, and manage their work efficiently. Source code is managed using a distributed version-control system for tracking changes during software development. Source code management tools facilitate tracking the sources and reasons for all code changes, allows reconstruction of any code branch at any point in time, facilitates merging of code changes from one code branch to another, and generally enhances the ability of multiple developers to simultaneously work on one code branch. Git is also linked into Conning's automated test system.

G. Software Enhancement Validation Procedures

Conning uses a combination of automated and manual testing to maintain code quality. Conning uses two separate automated testing systems. The first is a custom-built test platform which controls a set of dedicated machines (currently 25 in the pool) and uses them to run a series of automated tests on daily and weekly test cycles. Each automated test installs an up-to-date copy of our software from our revision control system and then runs a series of end-user test cases. The test cases use automated end-user interaction with the software user interface. Over 70 model input definition files are available for use in the automated test process, and these

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collectively test many different combinations of modules, model choices, parameter values, etc. Conning does not use client data for testing without permission.

Some of the automated testing involves running simulations in previously released versions of the software, then re-running the same simulation (using the same definition file) in a release-candidate version or a development version and then finally testing to see that the results are identical, ensuring backward compatibility and reproducibility. Other test cases exercise Definition Editor functionality via record-playback, while yet others test grid functionality. Some test cases run performance benchmarks to guard against the accidental introduction of performance bottlenecks. In addition to the automated testing, major releases go through extensive manual testing of the new functionality (for which automated tests may not yet have been created). Quantitative release criteria related to defect discovery must be met before the release is considered ready to ship.

The second test system is based on a DevOps platform that provides a comprehensive set of tools for testing, building, and deploying our software. The DevOps platform performs web-based tests and unit tests comprising a suite of 800 (and growing) web-based tests and over half a million-unit tests split into over 50 categories.

Conning maintains a repository of all previous versions of the software. Additionally, Conning software is designed to be backwards-compatible, so users can always reproduce results generated in prior versions using their currently installed version. Furthermore, Conning has secure primary and backup data centers where files and data are replicated daily.

VII. Process for Handling Model Findings

While every effort will be made to avoid errors in model calculations, inputs, and methodologies, it is possible that issues will be identified. "Model findings" refer to any issues discovered during model governance procedures or identified by a Model User or other stakeholder that have a financial impact for users of the model output. Model findings may be identified by any model stakeholder. Model Findings that occur during the monthly scenario generation and validation process have additional treatment detailed in section 2.C "Fallback Plan".

A. Tracking and Communication of Model Findings

All findings must be documented in the Model Findings Inventory, which tracks findings, estimated impacts, and remediation activity. When findings are remediated, the impact to model outputs must be documented and communicated to Model Users and the GOES (E/A) Subgroup.

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B. Risk Classification

To ensure effective monitoring and remediation priority, each finding will be assigned according to each of the risk categories below in the Model Findings Inventory.

1. Error vs. Refinement

   Errors are model findings where the scenario results deviate from the intended or expected results due to inappropriate inputs, software coding, or other factors. Refinements are model findings that involve a known model limitation, simplification, or desire to capture an emerging best practice. Errors should be communicated and addressed as soon as possible, and a review of controls should be performed to identify the root cause of the error and mitigate for future scenario releases.

2. Materiality

   Materiality will be driven based on the potential dollar and/or percentage impact on reserves, surplus, and risk-based capital. This will also include an assessment of whether it will impact a broad segment of the industry or a relatively small number of companies. An immaterial finding would be one that does not currently have a material financial impact and is expected to only decrease in materiality over time. Other factors influencing the consideration of materiality could include reputational impact and operational efficiency.

3. Complexity and Resources Required to Address

The model findings inventory will provide insight on how resource intensive and complex a given finding will be to address.

C. Remediating Findings

Material findings can be considered remediated if:

- It has been determined why the finding occurred;
- Any necessary changes to requirements have been determined and communicated to Model Users; and
- A model change is implemented to remove the finding.

D. Model Findings Inventory

The Model Findings Inventory will be available on the NAIC website (https://naic.conning.com/documentation). A sample file will be shown in Appendix B. The Model Findings Inventory will include the following information for each model finding:

1. Finding ID

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2. Finding Status (Open, Deferred, Closed)
3. Date finding was identified
4. Finding type (Error, Simplification, Data Limitation, Model Limitation)
5. Risk classification (Material Complex Finding, Material Simple Finding, Immaterial Finding)
6. Detailed description of the finding
7. Model ID
8. Model name
9. How the finding was identified
10. Estimated impact of finding
11. Determination of why the finding occurred
12. Necessary changes to requirements because of the finding
13. Description of model change implemented to remove the finding
14. Date finding was last reviewed

NAIC staff will have access to edit the Model Findings Inventory. Other model stakeholders will have Read access to the file.

The Model Findings Inventory will be updated whenever there is a new finding, whenever a finding is remediated, and any time there is a change in one or more of the details shown above.

E. Emergency Model Findings and Expedited Process

Material errors discovered in the GOES scenarios could necessitate the need to be classified as an "Emergency Model Finding" and undergo an expedited process for remediation. Under this situation communication and quick public discussion of an issue would be important to determining rapid corrective action. If necessary, membership of the Life Actuarial (A) Task Force could consider a "Waiver of Task Force Procedure" under the Valuation Manual Section 1.A.4.

F. Incident Documentation and Remediation (Postmortem Reports)

After an incident of model error or operational error, the model owner will write a report documenting the incident, the resolution, the root causes, and follow-up actions taken to prevent it from happening again (i.e. "Postmortem"). Postmortems should include specifics about the effectiveness of controls and any changes to controls. The report will be available to all interested parties.

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G. Key Performance Metrics

GOES operational performance metrics will be made available with other GOES documentation on the Conning website (https://naic.conning.com/documentation/). Five key metrics will be tracked, in a spreadsheet that is based on the following tracking template:

- Number of times consecutive publication delays have occurred
- Number of multi-day publication delays
- Number of consecutive minor errors
- Number of major errors
- Number of regressions (errors that have resurfaced despite earlier remediation)

VIII. Model Change Management

Model change management is the process to ensure that model changes are controlled and accurate. Three tools will be used to facilitate the change management process: 1) a Model Change Request Template, for submitting change requests; 2) a Model Change Request Inventory, to keep track of all change requests and their status; and 3) a Model Change Documentation Template, to ensure that changes are documented and made in a controlled manner. These tools are described in sections B and E below.

A. Model Change Categories

Each model change will be classified into one of the following model change categories, which determines the level of governance required.

Model change category	**Definitions**	**Level of governance**
Routine change	Scheduled updates, e.g. to update monthly starting conditions	Full governance, except that model change requests and tracking are not required
Model enhancement	Implementation of new methodology, incorporation of updates to existing requirements (e.g., VM-20 or VM-21 updates), etc.	Full governance
Model correction	Remediation of model issues identified through model validation, result analysis, external feedback, etc.	Full governance

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Cosmetic updates	Updates to model coding or structure which do not impact model outputs	See "Software Enhancement Validation Procedures"

"Full Governance" means that the governance process will include:

- Tracking of the issue in the model change log
- Development of a recommendation for an enhancement by Conning and NAIC Staff
- A public exposure period of no shorter than 30 days prior to public discussion and consideration of adoption.
- Validation and demonstrations to confirm the validity of the model change.
- Hashes of the most recent quarter-end scenario files before and after the change, created from the same inputs.
- If the hashes are not the same, copies of the before and after versions of the most recent quarter-end scenario files, created from the same inputs.
- Updates to documentation, as necessary.

B. Model Change Requests and Tracking

Routine model changes supporting monthly production of scenarios do not require a formal change request, tracking, or consideration by the GOES (E/A) Subgroup.

Other model change requests may be initiated by members of the GOES (E/A) Subgroup, Interested Regulators, or Interested Parties. Requests may be made by completing a Model Change Request Template and sending it to the NAIC staff support person for the GOES Subgroup. The Model Change Request Template will be available on the NAIC website.

The Model Change Request Template is intended to be used as a mechanism for sharing and escalating concerns. For example, it may be used when Model Users feel the model is generating inappropriate results or is causing unusually large impacts.

Model change requests will be tracked in the Model Change Request Inventory, which will be maintained and kept up to date by NAIC staff. The Inventory will indicate which models are impacted by the requested change, along with an expected resolution date.

Material model changes will be considered by the GOES (E/A) Subgroup, and if adopted through the NAIC committee structure, will be carried out by the Model Developer, with oversight by the Model Owner and Model Steward.

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Only NAIC staff will be given access to edit the Model Change Request Inventory. Other model stakeholders will have Read access to the file. The Model Change Request Inventory will be available on the NAIC website (https://naic.conning.com/documentation ~~location TBD~~).

C. Handling of Material Model Changes

There may be events that warrant significant changes to the GOES models, assumptions, and calibrations. In these situations, the GOES (E/A) Subgroup may consider the use of model office testing and/or field testing to analyze the impacts prior to implementation. This is not expected to be necessary for routine model updates.

Field testing is time-consuming and can be expensive. Where possible, model office testing may be considered as an alternative.

D. Modeling Environments

For the GEMS® software, Conning uses three separate modeling environments: a development environment, a test environment, and a production environment. These environments are based in separate work areas, with different permissions granted to users per their roles within the model governance framework.

All model changes occur in the development environment. Models are copied from the production environment into the development environment, where full editing access is available. Using this version of the model, developers make the necessary changes, conduct testing and complete the required change documentation to meet all governance requirements.

After changes are implemented, the model is copied to a distinct testing environment. Specific testing procedures are performed at the discretion of the model developer and model owner. The adequacy of testing will be reviewed by NAIC staff as directed by the GOES (E/A) Subgroup.

Once model development and testing are complete and full governance procedures have been followed to confirm and approve changes, models are promoted back to the production environment. In the production environment, only read access permissions are granted to the model developers to prevent any unintended changes to the production models. It is important to link a detailed description of the model changes to the newly promoted model to ensure clear version control.

E. Model Change Documentation Template

The Model Change Documentation Template (see Appendix B) will be used to ensure that changes are documented and made in a controlled manner.

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The model developer is responsible for completing the template for each model change. The template contains the following information:

- Technical details of the changes made in the model
- Summary of the impact of changes on model outputs
- Summary of model testing results
- Model User acceptance testing and validation sign-off
- Any findings identified during the model change process

Only Conning and NAIC staff will be given access to edit the Model Change Documentation Template. Other model stakeholders will have Read access to the file. The Model Change Documentation Template will be available on the NAIC website (https://naic.conning.com/documentation ~~location TBD~~).

F. Model Documentation Updates

Model documentation must be updated to reflect changes made to existing models. Documentation updates are made by the model developer and reviewed by the model owner. The model steward is responsible for confirming documentation updates are made promptly.

G. NAIC Analysis and Review Tools

To facilitate their review of the GOES scenarios, the NAIC maintains the following tools:

- SAS Scenario Statistics Program
- Excel Scenario Statistics Workbook
- Excel Scenario Picking Data Independent Recalculation Tools
- SERT Scenario Review Tool
- GOES Review and Signoff Template

Enhancements and fixes to these tools will be managed via change logs. All changes will be peer reviewed to check for accuracy and documented in the change log. The change logs will be maintained for auditing purposes and available upon request from an interested party.

H. Maintenance of the Governance Framework

The GOES Model Governance Framework will be exposed for no fewer than 30 days for routine comments and revisions at least annually during the second quarter. The requirement for routine annual exposures does not preclude the ability to hold off-

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cycle exposures and revisions. Each new version of the GOES Model Governance Framework that is adopted will be labeled with a version number. Versions will be made available on the same website as scenarios. Changes to the GOES Model Governance Framework go into effect immediately once adopted by the Life Actuarial (A) Task Force and the Life RBC (E) Working Group.

IX. Documentation Requirements

Conning will provide documentation on non-proprietary specifications and components of the GEMS Scenario Files used to develop the Basic Data Set and other models listed in the Model Inventory File. Access to this documentation is available to all Model Users. Documentation will be stored on Conning's website. The NAIC's website contains a link to Conning's website which is available to all Model Users.

Conning's Software Documentation Library contains more detailed documentation. It is available to Model Users who:

- Sign Conning's Nondisclosure Agreement, or
- Consultants engaged by a Model User that have signed a Nondisclosure Agreement, or
- Choose to purchase the Robust Data Set, or
- Choose to license Conning's API Tool, or
- Choose to license Conning's software

Additional documentation will be included in the model governance spreadsheets (e.g. model inventory file, model change documentation template, etc.).

X. Access Controls

Access controls are important to prevent unauthorized changes (whether inadvertent or otherwise). The table below summarizes the access granted to models and supporting documents.

	Access Level Granted		
Model or Document	**Conning**	**NAIC Staff**	**Other Parties**
Conning models listed in the Model Inventory File	Read/Write Dan Finn Other Conning staff trained on NAIC model requirements	None	None

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	Read Only Other Conning staff trained on NAIC model review requirements		
NAIC Software and Programs Used to Create Model Statistics (for purposes of validating Conning's metrics periodically and after any recalibrations)	None	Read/Write Brian Shade ~~McKayla Doyle~~ ~~Jim Stinson~~Keng Yang Hua Tim Leafblad Read Only Scott O'Neal	None
Model Inventory File	Read Only	Read/Write Scott O'Neal Amy Fitzpatrick	Read Only
Model Change Request Form	Read/Write	Read/Write	Read/Write
Model Change Request Inventory	Read Only	Read/Write	Read Only
Model Findings Inventory	Read Only	Read/Write	Read Only
Model Change Documentation	Read/Write	Read/Write	Read Only

XI. Appendices

A. Sample Monthly Model Validation Reports and Statistics

Basic Data Set Validation Reports and Basic Data Set Additional Statistics files are available at https://naic.conning.com/scenariofiles.

B. Supporting Documents

~~This section will contain links to supporting model governance documents.~~

Document	**Link**
Stylized Facts	https://naic.conning.com/documentation

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Acceptance Criteria	https://naic.conning.com/documentation
Model Inventory File	https://naic.conning.com/documentation
Model Findings Inventory	https://naic.conning.com/documentation
Model Change Request Template	https://naic.conning.com/documentation
Model Change Request Inventory	https://naic.conning.com/documentation
Model Change Documentation Template	https://naic.conning.com/documentation

C. Version History

Version Number	Version Date	Description of Document Update	Author
01	9/23/2024	Preliminary draft	Pat Allison, NAIC
02	10/29/25	Second Exposure Draft	Scott O'Neal, NAIC
03	12/7/25	LATF Fall National Meeting	Scott O'Neal, NAIC
04	11/13/26	I.A: Added an overview section II.B: Made it clear that review workpapers will be available for no fewer than five years III.D.2: Added scenario file retention policy VI.A: Added scenario audit file including hashing VII.G Added key performance metrics VIII.A - Added hashing to model change governance process VIII.H - Added procedural details to the maintenance of the governance framework	Scott O'Neal, NAIC

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D. Reference Documents

The following documents were used as references in the creation of this model governance document:

1. Materials discussed at the 5/1/24 meeting of the GOES (E/A) Subgroup

    a. "A Framework for Developing, Evaluating, and Implementing Economic Scenario Generators (ESGs) – ESG Model Governance" presented by Tony Dardis, Vice Chairperson, Economic Scenario Generator Work Group (ESGWG), American Academy of Actuaries

    b. ACLI document on model governance, presented by Brian Bayerle

    c. "GOES E/A Subgroup – Model Governance", presented by Scott O'Neal, NAIC Staff Support for the Life Actuarial (A) Task Force and the GOES E/A Subgroup

2. "Model Governance Checklist", published August 2016 American Academy of Actuaries

3. "Model Governance Practice Note", published April 2017 American Academy of Actuaries

4. "Actuarial Standard of Practice No. 56 Modeling", December 2019

5. Professional Services Agreement Between Conning, Inc. and the National Association of Insurance Commissioners, Effective September 30, 2020

6. Comments on model governance from GOES field test participants

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Agenda Item 4

Consider Exposure of

Nonforfeiture Actuarial

Guideline

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Consider Exposure of Nonforfeiture Actuarial Guideline

Attachment # 4

Cody Tyler (CA)

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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Background

- In late 2024, the IIPRC presented several questions to LATF regarding the interpretation of nonforfeiture requirements for flexible premium universal life insurance policies.
- One of these questions was "What is the applicable nonforfeiture interest rate for determining the expense allowance?"
- Shortly after the 2026 spring national meeting, the Nonforfeiture Drafting Group was formed to address this question.

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NAIC Model 585, *Universal Life Insurance Model Regulation*

- Section 6.A. of the model governs nonforfeiture requirements for flexible premium universal life insurance policies.
- As part of the minimum cash surrender value calculation in this section, a reduction of up to the "unamortized unused initial and additional expense allowances" is permitted.
- In essence, the expense allowance serves as a proxy for the maximum surrender charge allowed on a policy.

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Lack of Clarity – Initial Expense Allowance

- The initial expense allowance is defined to be equal to the allowance under the SNFL (Model 808) for an equivalent whole life insurance policy.
- Model 585 does not say what assumptions should be used in this calculation.
- Section 5c.H.(1) of the SNFL states that "All adjusted premiums and present values referred to in this Act shall be calculated…on the basis of a rate of interest not exceeding the nonforfeiture interest rate…"
- Some companies use the nonforfeiture interest rate to calculate the initial expense allowance under Model 585, while others interpret the above section to mean that the initial expense allowance can be calculated using any interest rate not exceeding the nonforfeiture interest rate.

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Lack of Clarity – Amortization of the Expense Allowance

- Under Model 585, the initial expense allowance is amortized to determine the maximum surrender charges in future years.
- The amortization factors are stated to be determined "both on the mortality and interest bases guaranteed in the policy."
- Companies have interpreted this provision to be referring to the minimum guaranteed fixed interest rate specified in the policy.

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Actuarial Guidelines

- The group agreed that the best way to address the issue would be through an actuarial guideline.
- Consistent with the description of actuarial guidelines in the AP&P, the purpose of the guideline would be purely to interpret / clarify Model 585, not modify it.
- Actuarial Guideline 24, which governs the nonforfeiture requirements for variable life insurance, contains a section functionally equivalent to Section 6.A. of Model 585. The group decided to simultaneously revise this guideline to be consistent with the new proposed guideline.

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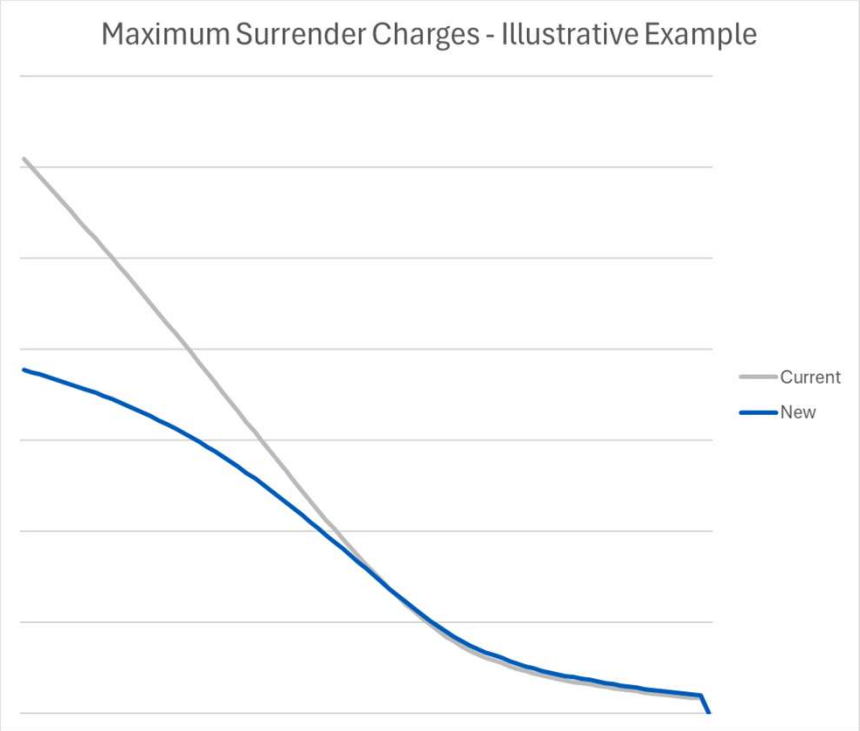
Conclusions

- The group decided that the guideline should require the use of the nonforfeiture interest rate both to calculate and to amortize the initial expense allowance. This was based primarily on a historical understanding of what the original drafters likely meant.
- Interested parties expressed concerns that this interpretation could cause the IRS to interpret the nonforfeiture interest rate as a policy's guaranteed interest rate under IRC § 7702. A guidance note was added to the guideline to clarify that this should not be the case.
- A tentative effective date of 1/1/28 was agreed upon by the group. This effective date also aligns with the effective dates of both the new nonforfeiture interest rate and the 7702 insurance interest rate, so most companies would already be making filings in response to these changes anyway.

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Summary

- The use of the nonforfeiture interest rate to calculate the initial expense allowance will generally result in **lower** acceptable initial surrender charges.
- The use of the nonforfeiture interest rate to amortize the initial expense allowance will generally result in a **slower** amortization. In other words, the maximum permitted surrender charge each year will fall more slowly over time.



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Actuarial Guideline – Draft

APPLICATION OF NONFORFEITURE REQUIREMENTS FOR EXPENSE ALLOWANCES RELATED TO CERTAIN UNIVERSAL LIFE POLICIES

Background

The purpose of this guideline is to clarify the basis used to calculate and amortize the initial and any additional expense allowances for non-variable flexible premium universal life insurance policies.

Section 6A of NAIC Model 585, *Universal Life Insurance Model Regulation*, specifies minimum cash surrender values based on unamortized unused initial and additional expense allowances. The initial and additional expense allowances are specified to be equal to the allowance provided by NAIC Model 808, *Standard Nonforfeiture Law for Life Insurance*, for an equivalent whole life plan of insurance. Section 5cH of NAIC Model 808 specifies the minimum basis used to calculate present values. However, it allows the usage of a rate of interest not exceeding the nonforfeiture interest rate. Although this optionality is generally conservative for a traditional life insurance policy, the use of an interest rate lower than the nonforfeiture interest rate to calculate the initial expense allowance results in a larger initial expense allowance and, therefore, a larger initial surrender charge for universal life insurance policies. The lack of clarity in NAIC Model 585 regarding the assumptions that should be used to calculate the initial and additional expense allowances has resulted in ambiguity as to how to correctly calculate the expense allowance and, consequently, inconsistent application of the nonforfeiture requirements. This guideline clarifies that the nonforfeiture interest rate shall be used to calculate the initial and additional expense allowances as referenced in NAIC Model 585.

Section 6A of Model 585 also specifies that the unused initial expense allowance and any unused additional expense allowances shall be amortized based on the mortality and interest bases guaranteed in the policy. When Model 585 was initially adopted, it was common practice to include the nonforfeiture interest rate within the policy. However, the nonforfeiture interest rate is rarely stated in modern policies. The drafters originally intended for this provision to reference the nonforfeiture interest rate applicable to the policy, but the lack of specificity and change in common practice has similarly led to inconsistent application of the nonforfeiture requirements. This guideline also clarifies that the nonforfeiture interest rate shall be used to calculate the unamortized unused initial and additional expense allowances as referenced in NAIC Model 585.

Text

1. **Effective Date**

   This Guideline shall apply to all policies issued on or after [Jan. 1, 2028].

2. **Scope**

   This Guideline shall apply to all policies which are subject to the requirements of NAIC Model 585, *Universal Life Insurance Model Regulation*.

3. **Initial and Additional Expense Allowance**

   The initial and additional expense allowance, as referenced in Section 6A of NAIC Model 585, shall be calculated on the basis of an interest rate equal to the nonforfeiture interest rate applicable to the policy.

4. **Unamortized Unused Initial and Additional Expense Allowances**

Commented [CT1]: An effective date of 1/1/28 is suggested based on both the new nonforfeiture rate and 7702 rate becoming effective on 1/1/28. Because companies will be updating their forms already as a result of these changes, it would make sense to have the same effective date.

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The unamortized unused initial expense allowance and any additional expense allowances, as referenced in Section 6A of NAIC Model 585, shall be calculated on the basis of an interest rate equal to the nonforfeiture interest rate applicable to the policy.

Guidance Note: The interest rate required by this Guideline applies only to the calculation of the initial and additional expense allowances and the amortization of unused expense allowances. It is not intended to define or replace any interest rate(s) used in the policy for any other purpose, including any guaranteed minimum interest crediting rate(s) under the policy.

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Actuarial Guideline XXIV

GUIDELINES FOR VARIABLE LIFE NONFORFEITURE VALUES

Minimum cash surrender values for variable life insurance policies shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The methods pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

Minimum cash surrender values for variable life polices may be determined using option B (Retrospective Method), C (Prospective Method), or D (Maximum Charge Method).

A. Definitions

(1) "Valuation Rate" as used in this guideline means:

(a) For policies issued prior to [1/1/2028]: the higher of the Assumed Investment Rate (AIR) or guaranteed interest rate included in the policy, if any, otherwise the highest valuation interest rate allowed under the Standard Nonforfeiture Law.

~~(1)~~(b) For policies issued on or after [1/1/2028]: the higher of the Assumed Investment Rate (AIR) or guaranteed interest rate included in the policy, if any, otherwise the nonforfeiture interest rate applicable to the policy defined in the Standard Nonforfeiture Law.

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(2) "Net Cash Surrender Value" means the maximum amount payable to the policyowner upon surrender.

(3) "Cash Surrender Value" means the Net Cash Surrender Value plus any amounts outstanding as policy loans.

(4) "Policy Value" means the amount to which separately identified interest credits and or investment return and mortality, expense, or other charges are made under a variable life insurance policy.

(5) "Accumulation Rate" means the net investment return and/or any interest credits applied towards the policy value.

B. Retrospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a valuation date shall be equal to the value using the Accumulation Rate through that date of the premiums paid minus the accumulation through that date of (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the Accumulation Rate at which changes in policy values have been made unconditionally to the policy (or has been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowance.

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Accumulation for the premiums and for all charges referred to in items (i)-(vi) above shall be based on the Accumulation Rate for the applicable account(s) from and to such dates as are consistent with the manner in which such Accumulation Rate is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the Commissioner shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.

The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services. The averaged administrative expense charges for any year shall be those which would have been imposed in the year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates which the policy states will be imposed in policy years through twenty in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

Service charges shall include charges permitted by the policy to be imposed as a result of a policyowner's request for a service by the insurer (such as the furnishing of future benefit illustrations) or of special transactions.

The initial expense allowance shall be the allowance provided by Items (ii), (iii), (iv) of Section 5, or by Items (ii) and (iii) of Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, using the nonforfeiture interest rate applicable to the policy for policies issued on or after [1/1/2028], for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the variable life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the variable life insurance policy, and maturing on the latest date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial expense allowance over the initial acquisition expense charges as defined above.

If the amount of insurance is subsequently increased upon request of the policyowner (or by the terms of the policy), an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with the above and with Section 5c(5) of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, using the face amount and the latest maturity date permitted at that time under the policy.

The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age x + t (where "x" is the issue age) shall be the unused initial expense allowance multiplied by $\ddot{a}_{x+t}/\ddot{a}_x$ where $\ddot{a}_{x+t}$ and $\ddot{a}_x$ are present value of an annuity of one per year payable on policy anniversaries beginning at ages x + t and x, respectively, and continuing until the highest attained age at

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which a premium may be paid under the policy, both on the morality guaranteed in the policy and either (1) for policies issued prior to [1/1/2028], the Valuation Rate for the policy or (2) for policies issued on or after [1/1/2028], the nonforfeiture interest rate applicable to the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_x$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(Note: The drafters chose a whole life initial expense allowance for several reasons. Variable life insurance is generally considered a permanent life insurance plan and most companies encourage a premium level which will provide lifetime insurance protection. Every variable life insurance policy of which the drafters are aware has a "net level premium" that could be computed which would guarantee permanent protection using some suitable interest assumption. As a result, it is expected that most variable life insurance policies will be sold as permanent plans.

Traditional whole life insurance, which is accorded a permanent plan expense allowance by the Standard Nonforfeiture Law (SNFL), is much more flexible than is often realized. Premiums may be stopped with term coverage resulting, policy loans can result in "stop and go" premiums, or a vanishing premium arrangement can be effected, all without the permanent plan expense allowance being affected. The SNFL does not require cash values for many forms of term insurance. All other permanent plans develop an expense allowance greater than that for whole life insurance under the SNFL.

The alternative of basing the initial expense allowance on a policyowner's "planned premium" was considered but rejected as artificial and subject to substantial manipulation by agents and/or insurers.)

C. Prospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to [(1) - (2) - (3) - (4)] where:

(1) is the present value of all future benefits;

(2) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Sections 5 and 5a or in Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. If Section 5c(1) is applicable, the nonforfeiture net level premium is equal to the quantity PVFB/$\ddot{a}_x$, where PVFB is the present value of all benefits at issue assuming future premiums are paid by the policyowner and all guarantees contained in the policy or declared by the insurer, and using the Valuation Rate.

$\ddot{a}_x$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

(3) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. $\ddot{a}_x$ shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.

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(4) is the sum of any quantities analogous to (2) which arise because of structural changes in the policy.

(Note: Structural changes are those changes which are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period.)

Future benefits are determined by (1) projecting the policy value, taking into account future premiums, if any, and using the guaranteed interest rate, if any; otherwise, the lesser of the AIR, if any, or the highest state approved nonforfeiture interest rate, and using the mortality, expense deductions, etc. contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.

All present values shall be determined using (i) an interest rate (or rates) specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year and (ii) the mortality rates specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year or contained in such other table as may be approved by the Commissioner for this purpose.

(Note: The types of quantities included in (3) are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.)

D. Maximum Charge Method

(1) Definitions: Wherever used in this Section, the terms have the respective meanings set forth or indicated in this paragraph.

(a) Policy Value is equal to gross premiums paid (excluding separate identified premiums for riders or supplementary benefits which are not credited to policy value) plus net investment income (which may be positive or negative and may vary based on policy loans) less the following as specified in the policy: (i) administrative charges (which may be taken in part from premiums and in part from policy value), (ii) acquisition and other charges, (iii) deferred acquisition and other charges, (iv) benefit charges, (v) service charges, (vi) partial withdrawals, and (vii) partial surrender charges.

(b) Benefit Charges made to the Policy Value are mortality charges made for life insurance on the insured person or persons and any charge made for riders and supplementary benefits.

(c) Service Charges made to the Policy Value are charges for transactional costs such as partial withdrawals, reallocations of policy values and benefit illustrations. Transactional charges shall not be assessed unless specifically permitted by law or regulation for transactions made under mandatory policy provisions.

(d) Administrative Charges is a per policy charge made regularly to the Policy Value (or deducted from premiums on scheduled premium policies) for the cost of administration. This charge may not exceed $5.00 per month in 1986. In subsequent years the limit for any new or in force policy shall be the product of $5.00 and the ratio (not to exceed 2.00) of (1) the Consumer Price Index (for all

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urban households) for the September preceding the year for which the determination is being made to (2) the Consumer Price Index for September 1986. The Commissioner may allow a higher charge upon an insurer demonstrating a justification.

(e) Acquisition and Other Charges are deducted from gross premiums before they are credited to Policy Value and/or made to the Policy Value. They may be expressed as a percentage of premium or a dollar amount per $1,000 of insurance or a dollar amount per premium payment or a per policy charge (other than the Administrative Charge). They do not include charges made as a reduction in investment return. These charges may vary by premium size, policy size and by policy year.

(f) Excess First Year Acquisition and Other Charges shall be the maximum excess of (A) over (B) based on the assumption that any premium (other than a single premium) payable in the first policy year is also payable during the entire premium paying period. (A) is the Acquisition and Other Charge made in the first policy year and (B) is the arithmetic average of the corresponding charges which the policy states would be made in policy years two through twenty.

(g) Excess Acquisition and Other Charges for a Face Amount Increase shall be the maximum excess of (A) over (B) based on the assumption that the net level whole life annual premium for the increase (as defined in (j) below) applies throughout the remaining premium paying period. (A) is the Acquisition and Other Charge for the increase, and (B) is the arithmetic average of the corresponding charges which the policy states would be made in the nineteen policy years following the increase.

(h) Net Investment Return is the actual amount credited to Policy Value net of investment expenses and/or other charges made as a reduction in investment return.

(i) The net level whole life annual premium at issue is based on the assumption of level insurance and level annual premium for life, the mortality table rate used to calculate the maximum mortality charges and an interest rate based on the higher of 4% or that specified in the policy.

(j) The net level whole life annual premium for an increase in the face amount of insurance shall be determined as of the date of the increases as though such increase were a separate policy under (i) above. Only increases in the face amount requested by the policyowner and increases in the face amount pursuant to the terms of the policy (e.g. an option to purchase or a cost of living increase) shall give rise to such a premium and the associated Excess Acquisition and Other Charges for a Face Amount Increase. Increases for this purpose shall not include increases in face amount resulting from a change in the death benefit option or changes in death benefit pursuant to policy terms that do not affect the face amount. Increases for this purpose shall be reduced by the amounts of any earlier decrease by reason of a partial withdrawal, but not a decrease resulting from a change in the death benefit option.

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(k) Surrender Charge is a deferred charge made to the Policy Value in the event of a full or partial surrender of the policy, reduction in the face amount of insurance or premium, or a lapse.

(l) Cash Surrender Value is the Policy Value less any Surrender Charge, before reduction for outstanding loans or other amounts due under the policy.

(m) Deferred Acquisition and Other Charges are Acquisition and Other Charges deducted from the Policy Value after the first policy year.

(2) Cash Surrender Values determined in accordance with this subparagraph shall meet minimum requirements.

(a) If Acquisition and Other Charges do not exceed the sum of:

(1) 90% of premiums received up to the net level whole life annual premium at issue (regardless of when received).

(2) 10% of all other premiums received.

(3) 90% of the net level whole life annual premium for increases in the face amount of insurance as defined in 1(j).

(4) $10 per $1,000 of initial face amount in the first policy year.

(5) $1 per $1,000 of face amount in subsequent policy years.

(6) $10 per $1,000 of any increase in the face amount of insurance other than an increase resulting from a change in the death benefit option. Increases up to the amount of earlier decreases are included here but not in (3) above.

(7) $200 per policy in the first year.

(b) A surrender charge may be established provided that the initial surrender charge together with the actual Acquisition and Other Charges made in the first policy year (and on premiums up to the net level whole life annual premium if received after the first year) do not exceed the sum of (1), (2) in the first year, (4) and (7) in (a) above. Additional surrender charges may be established after issue in connection with an increase in face amount provided that any such additional surrender charge and any Acquisition and Other Charges made in connection with such increase do not exceed the sum of (3) and (6) in (a) above.

(c) A Deferred Acquisition and Other Charge may be charged against the Policy Value in any policy year after the first, such that the total of all such charges imposed to date plus the surrender charge for that year does not exceed the maximum initial surrender charge. The Deferred Acquisition and Other Charges in any one year may not exceed the maximum allowable surrender charge for that year. Similar Deferred Acquisition and Other Charges may be imposed with respect to an increase in face amount.

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(d) The maximum allowable surrender charge for any year shall be the maximum initial surrender charge multiplied by $\ddot{a}_{x+t}/\ddot{a}_{x}$, where "x" is the issue age and "t" is the number of years since issue. Similar maximums shall be determined with respect to any additional surrender charges, with x and t based on the date of increase.

(Note: The minimum cash value methods B, C, or D are not intended to prohibit the current practice of allowing the imposition of additional surrender charges defined as follows. In the case of combination general account and separate account variable life products, additions or amounts derived from more favorable interest, mortality, and expense than those guaranteed in the policy on the general account fund and credited within 12 months prior to surrender may be subject to forfeiture upon surrender.)

E. Minimum Paid-Up Nonforfeiture Benefits

If a variable life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as (1) the mortality and interest basis, if any, specified in the policy for determining the policy value, or (2) the mortality and interest standards permitted for paid-up nonforfeiture benefits by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than sixty days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

(Note: It is possible that policies will have secondary guarantees. Such guarantees should be taken into consideration when computing minimum paid-up nonforfeiture benefits.)

Ever since the adoption of the original Standard Nonforfeiture Law (SNFL) in 1942, provision has been made for nonforfeiture calculations on the basis of substandard mortality. (See Sections 5.5a. and 5c, Paragraph 8(e) of SNFL.)

While this provision has been used infrequently in the past, it is anticipated the substandard mortality will be more frequently utilized in variable life insurance, given its flexible nature, to reflect the mortality classification assigned to the policy by the insurer.

A charge may be made at the surrender of the policy provided that the result after the deduction of the charge is not less than the minimum cash surrender value required by this guideline.

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Agenda Item 5

Consider Exposure of

APF 2026-10

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Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force

Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Non-US Mortality Technical Review Group of LATF
   William Leung, MO; Wanchin Chou, CT; Rachel Hemphill, TX; Fei Jiang, TX; Craig Chupp, VA; Thomas Reedy, CA; Matt Cheung, IL

   Mortality Tables for use under VM-20 for China and Canada.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   January 1, 2027, NAIC Valuation Manual

   VM-M Section 1 and 2

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   As LATF and/or the Non-US Mortality Technical Review Group of LATF have received presentations on and taken the opportunity to make substantial inquiry regarding methodology, level of conservatism, and intended scope of the tables, we recommend that LATF consider the adoption of the CIA 2014 for Canada industry table and CL2(2025), protection, and CL3(2025) savings within CL(2025) for China industry tables, respectively. Because these are public tables, we propose adoption in VM-M, which will then ensure that the adoption of the tables is not just considered by LATF but through the Executive level at the NAIC, as with any other Valuation Manual APF. This will also allow the use of these tables by any companies with insured lives being valued under VM-20 in Canada or China, while still subject to all other requirements of VM-20 normally applying for US tables, such as the comparison to the company's expected or prudent mortality.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
11/6/26	S.O, A.F.		
Notes: 2026-10			

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VM-M:

Section 1: Valuation and Nonforfeiture Mortality Tables

N. CL2(2025), Protection Table and CL3(2025), Savings Table contained in CL(2025)

"CL(2025), means that mortality table developed by the China Association of Actuaries which was adopted by the National Financial Regulatory Administration in China with an effective date of Jan. 1, 2026 for valuation and pricing purposes. CL(2025) includes sub table CL2(2025), which is the standard table for death-protection and health insurance products, and sub table CL3(2025) for policies carrying low traditional underwriting risk-transfer, tailored specifically for accumulation vehicles like increasing whole life insurance. The safety margin included in CL2(2025) is 10% and CL3(2025) is 0% respectively. The two sub tables are adopted as recognized loaded mortality tables for use only for insured lives in China being valued under VM-20 by the Life Actuarial (A) Task Force on [insert adoption date] and by the NAIC Executive Committee on [insert adoption date]. The as of date for the CL(2025) table is Dec. 31, 2024.

Drafting Note: A decision is still to be made to determine if the safety margins embedded should be adjusted to the levels in the 2017 CSO table.

Drafting Note: links will be added when the mortality table is available on the SOA MORT.

Section 2: Industry Experience Valuation Basic Tables

E. CL2-(2025), Protection Table, Unloaded

"CL2–(2025), Protection Table, Unloaded" means the CL2(2025), Protection Table developed by the China Association of Actuaries which was adopted by the National Financial Regulatory Administration in China with an effective date of Jan. 1, 2026. There is no published version of the unloaded industry experience table underlying the CL2-(2025). , Due to the difficulty involved in removing different levels of safety margins from the loaded table, the same table was adopted as a recognized unloaded mortality table for use only for insured lives in China being valued under VM-20 by the Life Actuarial (A) Task Force on [insert adoption date] and by the NAIC Executive Committee on [insert adoption date]. The as of date for the CL2-(2025) table is Dec. 31, 2024.

Drafting Note: There have been discussions about removing the 10% safety margin in the table, which could be an alternative version.

F. CIA 2014

"CIA 2014" means that mortality table developed by the Canadian Institute of Actuaries and corrected in June 2022 and adopted as a recognized mortality table for use only for insured lives in Canada being valued under VM-20 by the Life Actuarial (A) Task Force on [insert adoption date] and by the NAIC Executive Committee on [insert adoption date]. The table is an unloaded table. The as of date for the CIA 2014 table is Jan. 1, 2014.

Drafting Note: links will be added when the mortality tables are available on the SOA MORT.

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Agenda Item 6

Discuss Comments

Received on SSAP 109

Documentation

Requirements

On the 10/1 LATF call, For the SSAP 109 Pilot Project, it was decided to tentatively target 12/31 for companies to submit their SSAP 109 documentation and late January-February for company presentations. Based on that timeline, LATF is requesting:

- By **10/21**, companies should reach out to LATF NAIC support (Scott O'Neal) and signal their interest in participating in the pilot, confirming:
    - When they would be able to provide the **advance documentation** for their ALM derivative program
    - When they would be able to **present** to LATF on their ALM derivative program and specifically their hedge effectiveness

- By **10/30**, regulators, companies, and interested parties should suggest any additional hedge effectiveness documentation, or hedge documentation more broadly, to be included in company materials and presentations, beyond what is outlined in the existing draft SSAP.

Attachment 1: SAPWG to LATF – ALM Derivatives
Attachment 2: SSAP 109 Overview for LATF
Attachment 3: SSAP No. 109 Draft
Attachment 4: Issue Paper
Attachment 5: 2024-15 ALM Derivatives

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Rachel Hemphill, Chair of the Life Actuarial (A) Task Force
Craig Chupp, Vice Chair of the Life Actuarial (A) Task Force

From: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group

Re: Asset Liability Management Derivatives (SAPWG Ref #2024-15)

Date: August 17, 2026

This referral intends to inform the Life Actuarial (A) Task Force of the Statutory Accounting Principles (E) Working Group's project to establish new statutory accounting provisions for "asset liability management (ALM) derivatives" with a request for assistance in reviewing and assessing the guidance prior to its adoption. Specifically, the Working Group requests that the Task Force consider facilitating a pilot project in early 2027 (or sooner if preferred) to ensure regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests proposed to be used by industry, with consideration of additional specifications that should be included in the statutory guidance around how effectiveness testing should be performed.

As background, the proposed guidance intends to address interest-rate hedging derivatives that do not qualify as accounting-effective hedges under *SSAP No. 86—Derivatives*, but that are used for asset liability management. The discussion originated from the interest maintenance reserve (IMR) project, as it was identified that certain members of the life industry were allocating the gain or loss on these derivatives, which they considered economically effective, to IMR at termination. As the derivatives did not qualify as accounting-effective, they were held at fair value throughout the life of the derivative, with fair value changes reflected in surplus. At termination, the resulting gain or loss (already reflected in surplus), was reversed and allocated to IMR for deferral and recognition into income over a period of time. With the IMR revisions, clarifications have been included that these derivative structures will not be permitted allocation to the IMR. Rather, the development of new guidance to prescribe specific accounting treatment for these derivatives is being considered.

The proposed guidance in the draft new *SSAP No. 109—Asset Liability Management Derivatives* (SSAP No. 109) would allow qualifying derivative structures to be held at amortized cost. A derivative structure that qualified as highly effective at the time of termination or removal from the derivative program with a realized gain or loss would result with allocation of the realized gain or loss to a deferred derivative account with amortization into income over the average life of the hedged liability portfolio, not to exceed 10 years.

A key aspect of the guidance is the assessment of whether the derivative is highly effective. The draft guidance currently permits one of three methods to be designated for this assessment:

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

    a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the

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modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley duration difference).

c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

In addition to the direction of this Task Force referral, during the 2026 Summer National Meeting the Working Group exposed a revised SSAP and issue paper with an effective date of January 1, 2028. Although the ACLI communicated support for adoption, comments received from regulators requested additional modifications, which are reflected in the exposure draft. These modifications include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.

- Elimination of the elective accelerated amortization provisions.

The Statutory Accounting Principles (E) Working Group appreciates your attention to this referral and welcomes comments on the SSAP No. 109 proposed hedge-effectiveness tests, as well as on any aspects of the draft guidance. This new standard is expected to have a meaningful impact on life insurance companies' financial statements and operations, so therefore full consideration by regulators and actuaries is desired prior to adoption and implementation.

Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr, Scott O'Neal, Amy Fitzpatrick

Attachments:

- SAPWG Ref# 2024-15
- *SSAP No. 109—Asset Liability Management Derivatives* (Summer NM Exposure Draft)
- *Issue Paper – Asset Liability Management Derivatives* (Summer NM Exposure Draft)

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Potential SSAP 109 Pilot

Life Actuarial Task Force

October 1, 2026

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Background – Draft SSAP 109

- *SSAP No. 109—Asset Liability Management Derivatives*
  - **Scope**: interest-rate hedging derivatives used for ALM that do not qualify as accounting-effective hedges under *SSAP No. 86—Derivatives*. Includes dynamic hedging (rebalancing). Excludes asymmetric derivatives (e.g., options). Expected focus is on swaps, futures, and forwards without asymmetric features.
  - **Proposed Effective Date:** January 1, 2028
  - **Background**: Certain members of the life industry were allocating the gain or loss on these derivatives, which they considered economically effective (meaning effective in achieving the hedge intent), to IMR at termination for deferral and recognition into income over a period of time. With the IMR revisions, this will not be permitted. Instead, new guidance to prescribe specific accounting treatment for these derivatives is being considered. Transitional guidance (INT 23-01) applies in interim.

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Background – Draft SSAP 109

- The draft *SSAP 109 would* allow qualifying derivative structures to be held at amortized cost. Conceptually based in part on *SSAP 108 — Derivatives Hedging Variable Annuity Guarantees*.

- Gains or losses on terminated qualified derivatives would be amortized into income over the average life of the hedged liability portfolio, not to exceed 10 years.

- Statutory Accounting Principles (E) Working Group has exposed through October 2:
  - Proposal 2024-15
  - SSAP 109
  - Issue Paper

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Background – Draft SSAP 109

- Regulator modifications in current draft include:
  - Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a **reinsurance** agreement.
  - Requirement to include derivative deferred gains and losses in **actuarial projections**, with reconciliation to amounts reflected in **principle-based reserving** and **cash flow testing**.
  - Elimination of the elective accelerated amortization provisions.

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Background – Draft SSAP 109

- Like SSAP 108, requirements for SSAP 109:
  - Approval by the domiciliary state (without subsequent disallowance),
  - Clearly defined hedging strategy,
  - Certification by a financial officer on CDHS.

- Unlike SSAP 108, requirements for SSAP 109:
  - Are not only focused on amortizing temporary hedge mismatches.
  - Do not require a shortened 5-year amortization period for deferred assets and liabilities when hedging programs no longer qualify.
  - Require deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

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Clearly Defined Hedging Strategy

- A hedging strategy being **clearly defined** means the following are documented:
  a. The specific risks being hedged.
     - "In designating the hedged item, reporting entities are permitted to exclude specific **components** of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception."
     - "hedge the interest rate sensitivity, or a specific percentage of the interest rate sensitivity"
  b. The hedging objectives.
  c. The material risks that are not hedged.
  d. The financial instruments used to hedge the risks.
  e. The hedging strategy's trading rules, including the permitted tolerances from hedging objectives.
  f. The metrics, criteria, and frequency for measuring hedging effectiveness.
  g. The conditions under which hedging will not take place and for how long the lack of hedging can persist.
  h. The group or area, including whether internal or external, responsible for implementing the hedging strategy.
  i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified.
  j. The circumstances under which the hedging strategy will not be effective in hedging the risks.

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Draft SSAP 109 – Actuarial Considerations

What would qualify for SSAP 109 treatment?

- Highly-effective derivative structures…

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Draft SSAP 109 – Actuarial Considerations



The term “highly effective” describes a **reduction of the duration difference** between the asset and liability portfolios that is accomplished by the hedging derivatives with between an **80%-125% effective rate**.

Depends on proportion of the mismatch being hedged (P%).





Assessed at least quarterly.

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Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

- Asset Portfolio: duration of X
- Liability Portfolio: duration X**+Y**

Hedge P% of duration mismatch

Post-Hedge

- Asset Portfolio: duration range [X**+80%*P%*Y**,X+**125%*P%*Y**]
- Liability Portfolio: duration X**+Y**

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Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

- Asset Portfolio: duration of 9
- Liability Portfolio: duration 11

Hedge 50% of duration mismatch

Post-Hedge

- Asset Portfolio: duration range [9.8,10.25]
- Liability Portfolio: duration 11

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Draft SSAP 109 – Actuarial Considerations

Modified Duration

- Effect of a 100-basis-point (1%) change in interest rates on price of an instrument (measured as percentage)

Macaulay Duration

- Weighted average time until cash flows are received (measured in years)

Dollar Value One (DV01)

- Change in an instrument's price for a one basis point (0.01%) change in rates (measured in dollars)

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SAPWG Referral to LATF

SAPWG requested LATF assistance

- facilitating a pilot project in early 2027 (or sooner)
- review and assess the proposed derivative guidance, particularly the specific hedge effectiveness tests
- consider **additional specifications** that should be included in the statutory guidance around how effectiveness testing should be performed

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Pilot: Unaggregated Field Test Approach

Participating Companies will present in Regulator-Only Session

- Regulator-only since each company presents their specific experience and approach
- Can schedule multiple Companies per regulator-only LATF call, with controlled company entry/exit
- Company presentations to focus on:
  - CDHS documentation, with special focus on defining the risks being hedged.
  - Hedge effectiveness documentation, based on draft SSAP.
  - As regulators have identified the need for enhanced guidance and documentation on effectiveness, companies are strongly encouraged to present other analyses, metrics, or criteria the companies currently review to monitor economic effectiveness of these hedges.

Companies to submit drafts at least one week in advance of presentations for regulator review:

- The Disclosures under the Draft SSAP 109, Paragraph 22.
- Materials that would be provided to domiciliary state for initial consideration.

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Pilot: Timing and Next Steps

Timeline Option 1 vs. Option 2

- Option 1 - Fast track - companies already largely prepared based on SAPWG discussions
- Option 2 - Normal pace - multiple interested companies were not aware of SAPWG discussions
- Timeline below are all expressed as **[Option 1** or **Option 2]**.

Timing to Express Interest

- By [**10/8** or **10/21]**, companies should reach out to LATF NAIC support (Scott O'Neal) and identify:
  - When they would be able to provide the **advance documentation** for their ALM derivative program
  - When they would be able to **present** to LATF on hedge effectiveness

Timing to Suggest Consistent Presentation Content

- By [**10/15** or **10/30]**, regulators, companies, and interested parties should suggest any additional hedge effectiveness documentation to be included in presentations, beyond what is outlined in the existing draft SSAP.

Timing of Pilot

- **[late October-early November** or **late January – February]**
- Depending on Number of Participants and Availability

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Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue	Common Area
Issued	2026 Summer National Exposure Draft
Effective Date	January 1, ~~2027~~2028
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

STATUS **1**
SCOPE OF STATEMENT **1**
SUMMARY CONCLUSION **1**
Terms/Concepts (for purposes of this statement) 2
Special Accounting Provision 3
Assessing Hedge Effectiveness 5
Measurement/Recognition of Gains and Losses of Derivative Instruments 6
Derivative Income 8
Disclosures 8
Effective Date and Transition 9
REFERENCES **10**
Relevant Issue Papers 10

SCOPE OF STATEMENT

1. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity (referred to as asset liability management (ALM) derivatives). The provisions within this statement are separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

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3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP No. 4 and SSAP No. 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Note: Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

Terms/Concepts (for purposes of this statement)

5. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they do not contain these features).

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

c. Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire

book of business or declared components thereof[1].

d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

6. The special accounting provision within this statement permits reporting entities to utilize a form of "macro-hedging" in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge2), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as "CDHS" or "hedging strategy"). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage[3] of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

8. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner

[1] Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client's portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

[2] As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

[3] In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

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allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

9. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this statement allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),

b. The hedging objectives,

c. The material risks that are not hedged,

d. The financial instruments used to hedge the risks,

e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,

f. The metrics, criteria, and frequency for measuring effectiveness,

g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,

h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,

i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and

j. The circumstances under which hedging strategy will not be effective in hedging the risks.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5.c., shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging

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instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 13, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with ongoing assessment consistent with the originally documented risk management strategy.

12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, can this special accounting provision be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley duration difference).

c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of $9M and a

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liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

Measurement/Recognition of Gains and Losses of Derivative Instruments

14. All designated highly effective hedging instruments shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

15. Amortized cost treatment shall discontinue in the following scenarios with recognition as follows:

a. Maturities/Terminations: Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero shall be recognized as a deferred asset (loss) or a deferred liability (gain). The derivative maturity/termination fair value will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination.

b. De-Designation - Rebalancing: For derivatives de-designated from a current highly effective hedging relationship, the derivative fair value at the time of removal shall be recognized as an asset or liability offset by a deferred asset or deferred liability, resulting with a surplus neutral impact. All subsequent (post de-designation) derivative fair value changes shall be recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated[4]..

c. De-Designation - Ineffectiveness: For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

16. The ability to recognize a deferred asset or liability under paragraph 13 is limited to only the portion of the hedging instruments attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

[4] For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

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17. The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.

18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program. Recognized deferred assets and liabilities are required to be eliminated and recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, the deferred assets and deferred liabilities recognized and outstanding at each reporting date.

b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.

c. Reporting entities shall capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant *Valuation Manual* calculations. Reporting entities shall prepare a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.

~~b. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses at any time in advance of the scheduled amortization period.~~

~~c. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.~~

~~d. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally~~

~~to a program with a deferred asset that best corresponds to the deferred liability[5].) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.~~

19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (de-designated - rebalancing), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be "locked" and amortized under the remaining schedule ~~unless the reporting entity elects to terminate or accelerate amortization~~. Subsequent to the removal from a highly effective strategy, fair value fluctuations from the outstanding derivative instruments are subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses. Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b., can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity reported as a deferred asset or deferred liability under this statement.

Derivative Income

20. Derivative income from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

21. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

22. A reporting entity that has derivatives accounted for under this special accounting provision, or that has unamortized deferred assets or deferred liabilities pursuant to this guidance shall disclose the following within the financial statements:

a. For each hedge program under this statement, discussion of the hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the "Clearly Defined Hedging Strategy". Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective

~~[5] The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.~~

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or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period.

c. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years~~, including any accelerated amortization elected by the reporting entity~~. This disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.

e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated

Effective Date and Transition

23. This statement is effective January 1, ~~2027~~2028. The guidance in this statement is permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement.

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to

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realized gains and losses in the statement of operations This is permitted even though the derivative is still open. The reported derivative asset/liability book/adjusted carrying value at the date of transition shall be amortized to income over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative shall follow the provisions of this statement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

26. Realized derivative gains and losses previously allocated to the interest maintenance reserve (IMR) for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 1XX—Asset Liability Management (ALM) Derivatives*

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/exposures/imr & alm/24-15 - ssap 109_2027(draft).docx

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Statutory Issue Paper No. 1XX

Asset Liability Management (ALM) Derivatives

STATUS
2026 Summer National Meeting Exposure Draft

New SSAP: SSAP No. 109

Current Authoritative Guidance: None

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details new statutory accounting concept revisions to incorporate special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity. These derivative structures are referred to as asset liability management (ALM) derivatives.

2. The provisions within this issue paper are proposed to be separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The derivatives subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under the existing standards. The provisions within this issue paper are only permitted if all the components of the issue paper are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative hedging transactions addressed within.

DISCUSSION

4. The discussion of ALM derivatives originally began in 2023 in accordance with the development of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That interpretation provided limited-time exception guidance to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the annual statement instructions that required nonadmittance of net negative (disallowed) interest maintenance reserve (IMR) as a short-term solution. With the development of the interpretation, it was identified that some reporting entities had been allocating gains and losses from non-accounting-effective derivative transactions to IMR. For these companies, the derivative had been reported at fair value when open, with unrealized gains and losses from fair value fluctuations reflected through surplus, but at termination, the reporting entity reversed the unrealized gain or loss and recognized the realized impact through IMR. Although this guidance was not in accordance with SSAP No. 86, these reporting entities referred to a "hedging" reference in the annual statement IMR instructions and had taken a position that the derivative was "economically effective" as a hedge even if it did not qualify as an accounting-effective hedge.

5. With the August 2023 issuance of INT 23-01, provisions were included to allow reporting entities that had a historical, documented practice of deferring both derivative gains and losses from these "economically effective" hedging derivatives to continue the practice over the short-term duration of the interpretation and include the derivative losses as part of the admitted net negative (disallowed) IMR.

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Reporting entities that did not have a historical, documented practice, would not be permitted to begin allocating realized gains or losses from these derivative transactions to the IMR or include these derivative losses as part of an admitted net negative (disallowed) IMR. For reporting entities eligible to continue the historical practice, the interpretation required reporting entities to include a roll-forward disclosure for the unamortized IMR balances related to these derivatives separately for derivative gains and losses.

6. Pursuant to subsequent discussions, the Statutory Accounting Principles (E) Working Group noted that the gains and losses that are not accounting-effective hedging derivatives in scope of SSAP No. 86 shall not be allocated to the IMR. The revisions to SSAP No. 7 from the long-term IMR project clarify that only specifically noted derivatives are permitted to be included in IMR:

a. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

b. Terminated income generating derivatives in scope of SSAP No. 86 (written derivatives) resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

c. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is valued at amortized cost.

7. With these discussions, industry representatives proposed new statutory accounting guidance to address asset-liability management derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity. The industry representatives identified that these hedges, which often reflect macro-hedges, will not qualify as accounting-effective hedges under SSAP No. 86, but are key insurance company activities as they protect surplus by shielding insurance companies from negative impacts of interest rate changes.

8. On September 10, 2025, representatives from the ACLI presented an ALM derivative proposal to the Statutory Accounting Principles (E) Working Group. The ACLI highlighted their view that the proposed guidance would significantly enhance the alignment of each company's reported surplus with its actual solvency and liquidation value, as well as avoid situations where financials contain inappropriate portrayals of surplus and illusionary financial strength. The ACLI presented two versions of potential statutory guidance, one representing an amortized cost method and the other representing a mark and spread method (fair value). Although key concepts are similar between the two proposals, under the amortized cost method, the hedging derivatives would be reported at amortized cost (zero for a no-cost derivative), and when terminated (or removed from an effective hedge program), the derivative fair value would be deferred and amortized into income overtime. Under the mark and spread method, the hedging derivatives would be reported at fair value, resulting in the changes in fair value (unrealized gains and losses) being taken to deferred accounts with amortization throughout the life of the derivative. Both versions also proposed to exclude asymmetrical derivatives. At the conclusion of the call, both versions of the proposed guidance and the ACLI presentation were exposed for comment.

9. On December 9, 2025, as part of the 2025 Fall National Meeting, the Working Group considered comments on the exposed proposals, noting the ACLI strongly supported the development of guidance for ALM derivatives, as well as support for the amortized cost approach. In considering the comments, the Working Group directed NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for ALM under the

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amortized cost approach and continuing the exclusion of asymmetrical derivatives. (Discussion of asymmetrical derivatives is captured in paragraphs ~~15~~16-~~16~~17.)

10. On May 18, 2026, the Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. The edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach and clarify amortization of the derivative asset or liability. Exposure intends to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

11. On August 12, 2026, the Working Group exposed a revised SSAP and issue paper with a modified effective date of January 1, 2028. In addition to the exposure, the Working Group directed a Life Actuarial (E) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB. Revisions reflected in the August 2026 exposure include:

a. Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

b. Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.

c. Elimination of the elective accelerated amortization provisions.

JMG to expand with subsequent discussion dates.

Discussion of ALM Hedging Concepts and Differences from SSAP No. 86 and SSAP No. 108

~~11.~~12. The development of new statutory accounting guidance to address ALM derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity, utilized existing concepts in SSAP No. 86 and SSAP No. 108 to the extent possible to allow for consistent concepts and ease of application. New derivative guidance was deemed appropriate as the proposed macro-hedging derivative structures would not qualify as highly effective hedges under SSAP No. 86 and the guidance is SSAP No. 108 is specific to hedges for variable annuity guarantees. Consideration was given to expanding SSAP No. 86, but as that standard utilizes U.S. GAAP guidance for effective-hedge determination, separating guidance for ALM derivative programs into a new statement was considered most appropriate.

~~12.~~13. Consistent with SSAP No. 108, the provisions of the new ALM derivative guidance permit the recognition and admittance of deferred assets and deferred liabilities, with amortization of the deferred amounts into net realized capital gains and losses over a period not to exceed 10 years. Although SSAP No. 86 does not use the concept of deferred assets and deferred liabilities, deferral of gains and losses from accounting-effective hedges is also a consistent concept, it is just completed through an adjustment to the basis of the hedged item or allocation to IMR. The existing statutory accounting guidance to recognize fair value gains and losses as deferred liabilities and assets, as well as use of an amortized cost approach in SSAP No. 86 for accounting-effective hedges, is inconsistent with U.S. GAAP. Under U.S. GAAP, and under *SSAP No. 4—Assets and Nonadmitted Assets,* realized losses do not represent assets as they do not reflect a present right to an economic benefit. Also, under U.S. GAAP and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, realized gains do not represent liabilities as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains and

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losses as deferred liabilities and assets for certain derivative structures and for qualifying fixed-income investment sales is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. These provisions result from the different accounting measurement concepts between statutory accounting and U.S. GAAP.

~~13.~~14. Under SSAP No. 108, recognized deferred assets are permitted to be admitted without limitation. Although net negative IMR currently has a 10% admittance limit, with the offsetting of gains and losses that occur between a SSAP No. 86 hedged item and hedging derivative, there is limited net amount recognized in the IMR for accounting-effective hedges. The provisions within this new statement propose full admittance of deferred assets in order to not disincentivize prudent hedging activities. Items are only permitted to be recognized as deferred assets or deferred liabilities if they qualify under the effective hedge provisions of the new statement. The guidance requires an amount equal to the net deferred asset and deferred liability to be allocated from unassigned funds to special surplus. (Note: SAPWG discussion is expected to confirm this proposed admitted asset treatment.)

Terms and Concepts

~~14.~~15. The terms and concepts for the new ALM statement are consistent with SSAP No. 108. These items permit macro-hedges in a dynamic hedging strategy. This means that the derivative instruments and hedged items can reflect a flexible portfolio, rebalanced as needed to permit an ongoing effective hedging strategy. Macro-hedges and dynamic hedging strategies are not permitted under SSAP No. 86. These characteristics are key reasons why these hedging programs do not qualify as accounting-effective hedge programs under SSAP No. 86 or under U.S. GAAP.

~~15.~~16. A specific restriction incorporated into the ALM derivative standard prevents use of derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options). Programs with these derivatives are not eligible to apply the special accounting provision within the standard and are required to follow the guidance in SSAP No. 86, with fair value measurement. Swaps, forwards and futures are expected to typically be eligible for the provisions within the ALM standard as long as they do not have asymmetrical payoff profiles or derivative premiums at inception.

~~16.~~17. Asymmetrical derivatives refer to the payment profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a reporting entity buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. Asymmetrical derivatives are excluded as permissible derivatives within the standard to avoid the possibility that companies that buy options that mature out of the money would defer the “loss” although it was the upfront purchase price. The exclusion also limits the ALM derivative concept to standard derivatives for ease of application and review.

~~17.~~18. The requirements a reporting entity shall follow in order to utilize the special accounting provisions in the new ALM statement, including explicit approval by the domiciliary state, certification by a financial officer, as well as the requirements for a clearly defined hedging strategy are all consistent with SSAP No. 108.

Assessing Hedge Effectiveness

~~18.~~19. The ALM derivative standard was developed for highly effective hedges that reduce duration differences between designated asset and liability portfolios during the period when the hedge is designated. With this specific focus, which is different from both SSAP No. 86 and SSAP No. 108, specific methods have been developed to determine whether the hedging program is highly effective. One of the

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three noted methods detailed below is required to be designated by the reporting entity for each hedging program and used as the constant measurement of effectiveness. Each method requires use of the standard 80-125% derivative threshold (used in SSAP No. 86 and U.S. GAAP) in determining hedge effectiveness.

a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument. (For example, if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction). As such, if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In that case, a duration of the assets with derivatives between 9.8 and 10.25 would be highly effective.

b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years. As such, if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference).

c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates. As such, if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

Measurement / Recognition of Gains and Losses of Derivative Instruments

~~19.~~20. Consistent with SSAP No. 86, but different from SSAP No. 108, the provisions of the ALM standard requires use of an amortized cost measurement method for highly effective hedging instruments, with excluded components measured and reported at fair value. (Under SSAP No. 108, the derivatives follow a fair value measurement, which is in line with the assessment of effectiveness under that standard. Under SSAP No. 108 effectiveness is determined based on fair value comparisons to the hedged item.)

~~20.~~21. The amortized cost approach was supported for ALM derivatives as that approach would mirror SSAP No. 86 for highly effective hedges, where derivatives would be reported at cost (zero, if there is no upfront cost), without the reporting of surplus valuation changes from fair value fluctuations throughout the life of the derivative. With the amortized cost approach, if the derivative continues to be highly effective, there would be no unrealized gains or losses recognized until termination (or removal from the program), meaning that there would be no need to track or recognize deferred assets or losses while the derivative is part of an effective program. At termination (or removal from a highly effective program), the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. If a fair value approach had been supported, fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the derivative duration and not just at termination (removal). As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being

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captured in these assessments. In addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be the simpler approach for both application and regulator review.

~~21.~~22. The ALM derivative standard provides guidance for discontinuation of the amortized cost approach based on whether the derivative terminates/matures, is de-designated (removed) from a qualifying highly effective program and when de-designated or captured within a program that no longer qualifies as highly effective. For derivatives that terminate or are removed from a highly effective program, the fair value at the time of termination/de-designation shall be recognized as a deferred asset (loss) or as a deferred liability (gain), which would be surplus neutral to the amount received/paid or as an offset to the current fair value recognition of the derivative. Open derivatives removed from a qualifying program are permitted to be immediately allocated to another highly effective derivative program. If this occurs, the fair value at the time of removal shall be recognized as a deferred asset/liability and shall reflect the amortized cost basis for the subsequent program. Allocation to another program is required within the quarter to be considered an immediate allocation. The reason for this time restriction is that once a derivative is removed from a qualifying program, it is required to be reported at fair value with fluctuations in fair value recognized as unrealized gains and losses. By requiring an immediate reallocation, a reporting entity would not have a period of time in which the derivative is reported at fair value with unrealized gains and losses recognized. Such re-allocations are not expected to be common and would be expected only in situations in which derivative programs are being combined, which can be achieved with an immediate reallocation of the derivative.

~~22.~~23. For derivatives that are de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative no longer qualifies for the ALM derivative standard. The derivative shall be captured in scope of SSAP No. 86, which would require a fair value measurement method with fair value fluctuations reflected as unrealized gains and losses.

Amortization of Deferred Assets and Liabilities

~~23.~~24. The provisions of the ALM standard require amortization of deferred assets and liabilities over a timeframe that equals the weighted average life of the hedged liability portfolio, not to exceed 10 years. This 10-year amortization limit is consistent with SSAP No. 108. Provisions for a reporting entity to accelerate amortization, ensuring consistency in any accelerations to both deferred assets and liabilities, is a provision within ~~also consistent with~~ SSAP No. 108 that has not been duplicated within the new ALM standard. Although provisions are incorporated within SSAP No. 108 to ensure consistent application to deferred gains and losses, even if more than one hedging strategy is utilized, concerns were noted that reporting entity could still elect to accelerate amortization when in a net deferred liability (gain) position and not make the same election when in a net deferred asset (liability) position. With these concerns, the ability to accelerate amortization has not been captured in the ALM standard.

~~24.~~25. Although SSAP No. 108 has provisions that require a shortened 5-year amortization period for deferred assets and liabilities when programs no longer qualify, the ALM standard does not require a similar shortened 5-year amortization timeframe. SSAP No. 108 requires a shortened timeframe as it uses a fair value approach, and deferred assets and liabilities are recognized as derivative fair value fluctuations occur. Meaning, a deferred asset could be recognized for an open derivative, and while the derivative is still open, the program could be identified as no longer a qualifying program. Under the ALM standard, and the amortized cost approach, deferred assets and liabilities are only recognized when terminated/de-designated from a highly effective program. As such, there is no risk that a deferred asset or liability would be recognized prior to confirming that the program is highly effective. As the hedging benefit would have been achieved prior to the recognition of the deferred asset or liability, allowing amortization over the stated timeframe, not to exceed 10-years, is permitted even if a program is subsequently identified as no

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longer highly effective. Open derivatives in a program that no longer qualifies as highly effective are not permitted to be recognized as deferred assets or liabilities and are required to follow SSAP No. 86 with a fair value measurement method.

~~25.~~26. The provisions to the ALM standard include a requirement for deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement. This guidance is similar to the concept in IMR, in which the deferred derivative deferred gains and losses should no longer exist when the related policyholder obligations to which they were attributed have been derecognized.

ALM Derivative Reporting

~~26.~~27. The ALM derivative reporting in the statutory financial statements is largely consistent with the provisions of SSAP No. 108, with discussion of the hedging program, including the hedging instruments and strategy, the assessment of hedging effectiveness, compliance with the clearly defined hedging strategy, and if there are excluded components. The disclosures also include information on cost, fair value, and a roll-forward of the deferred assets and liabilities, with a percentage comparison to total capital and surplus, as well as the expected amortization over the next 10 years.

~~27.~~28. The disclosures capture information on programs that no longer qualify as highly effective, or that a reporting entity elects to discontinue the ALM guidance, along with information on the outstanding hedging instruments that will be reclassified to a fair value measurement method.

29. For reporting, it is proposed that new subtotals be added to Schedule DB to segregate the derivatives under the ALM derivative standard.

~~28.~~30. Reporting entities are required to capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy (AAT)/cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations. This provision requires reporting entities to prepare a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.

Transition and Effective Date

~~29.~~31. The transition guidance proposes an effective date of January 1, ~~2027~~ 2028 to be applied on a prospective basis for approved, qualifying hedge programs in place on or after the effective date. The guidance includes a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the program would have qualified in scope of the statement.

~~30.~~32. A one-time transition provision has been included for approved, open qualifying programs to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations. This is proposed to prevent situations in which reporting entities terminate and re-establish derivative programs as of the effective date. If the provision was not incorporated, then reporting entities that have previously established programs to allocate realized gains and losses from such hedging derivatives to IMR would be permitted to allocate the realized impacts from termination to IMR for future amortization. Reporting entities that had followed guidance in line with SSAP No. 86 and have not historically reclassified realized impacts from non-accounting effective hedging derivatives to the IMR would be at a disadvantage.

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~~31.~~33. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as realized gains and losses even though the derivative is still open. The reported book/adjusted carrying value of the derivative asset or liability at the date of transition shall then begin amortization to income over the remaining life of the derivative instrument over a period not to exceed 10 years. At the time of transition, the current fair value of the derivative would be established as the amortized cost basis. With this approach, future fair value fluctuations will not be recognized until derivative termination or removal from a highly effective program. At that time, assuming the program still qualified as an effective hedge, the derivative fair value would be recognized as a deferred asset and liability and follow the amortization provisions in the statement.

~~32.~~34. The transition guidance is explicit that if there are open programs that will not qualify as an effective hedge under the statement, or for which the company will not elect to apply, then the open derivatives shall continue to be in scope of SSAP No. 86, reported at fair value, with fair value fluctuations reported as unrealized gains or losses.

~~33.~~35. The transition guidance also reiterates provisions expected in SSAP No. 7, where if a reporting entity had realized gains and losses from derivatives previously allocated to the IMR, those balances shall be amortized over a period not to exceed 10 years. Upon the effective date of SSAP No. 7, realized gains and losses attributed to derivatives that do not qualify as effective hedges under SSAP No. 86 are not permitted to be taken to the IMR.

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Exhibit A – Example

Under the accounting provisions within this issue paper, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination or with de-designation (rebalancing) from a current highly effective program; at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral).

Under this statement, the ability to recognize a derivative at amortized cost, with recognition of the resulting fair value as a deferred asset or liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Reporting entities shall designate and utilize one of the permitted tests for determining whether the program is highly effective detailed in paragraph 19~~1~~. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
    - Hedged item – Structured settlement liability net cash flows
    - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company's documented defined hedged liability item had a modified duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented defined supporting asset portfolio had a modified duration of 9.
    - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the modified duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

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SSAP109 Example

Amortized Cost Method

July 1, 202x:

Fixed Income Assets = $100 (Modified Duration = 9)
Hedged Liabilities = $100 (Modified Duration = 10)
Fixed Income Assets Modified Duration With Derivatives = 10
Fixed Income Assets & Liabilities' Amortized Cost = Fair Value
Derivatives Amortized Cost & Fair Value = 0

Sept. 30, 202x:

Example Entries

Change in Value

N/A

Derivative Maturity/Termination *(if applicable)*

DR-CR: Cash
DR-CR: Deferred Asset/Liability
} *surplus neutral*

Amortization *(subsequent quarters for maturities/terminations, as applicable)*

DR-CR: Deferred Asset/Liability
DR-CR: Net Investment Income
} *surplus impact over amort period*

Liquidation Value *(amounts rounded for simplicity)*

Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)*:

	Assets	Liabilities	
BOP Fair Value (Liquidation Value)	100	100	*Net Flat Liquidation Value*
Value Change *(ex-derivatives)*	9	10	*Interest rates decrease 1%*
EOP Fair Value (Liquidation Value) *(ex-derivatives)*	109	110	*Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities*
ALM Derivatives	1		*ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)*
EOP Liquidation Value *(w/derivatives)*	110	110	*BOP net flat Liquidation Value remains intact due to highly effective hedges*

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Balance Sheet Value			
BOP	100	100	*Net flat*
EOP *(amort cost-ex derivatives)*	100	100	
EOP *(derivative maturities)*	1	1	*per above journal entry (DR-CR: Cash; DR-CR: Deferred)*
EOP Balance Sheet Total	101	101	*Net flat (reflects highly effective hedge); deferral of asset/ liability brings balance sheet surplus equal to liquidation value*

De-Designation Example Entries, if applicable (using SSAP No. 86 as a guide):

De-designation

DR-CR: Derivative Asset/Liability	*current value*
DR-CR: Deferred Asset/Liability	*(surplus neutral)*
Start amortizing	

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability	*(prospective MTM in URGL)*
DR-CR: URGL (Surplus)	

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Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Asset Liability Management Derivatives

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☐	☐
New Issue or SSAP	☒	☒	☒
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to consider new statutory accounting guidance that prescribes guidance for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*, but that are used for asset-liability management (ALM). Specifically, industry has proposed two assessment metrics for macro-hedges, the "ALM Risk Reduction Approach," which is a hedging approach to reduce mismatches between identified assets and liabilities and the "ALM Target Management Approach," which is a hedging approach to keep an asset portfolio aligned with a liability target. These programs do not qualify for effective hedge treatment under SSAP No. 86 (or any accounting regime) as they reflect macro-hedges.

This agenda item originated from discussions at the IMR Ad Hoc Group, noting that full Working Group discussion is needed on this topic. Industry has communicated that these hedging derivatives, although not accounting effective under SSAP No. 86, are economically effective (meaning effective in achieving the hedge intent). With this industry assessment, and their interpretation of the Annual Statement Instructions, the fair value fluctuations reported as unrealized gains and losses while the derivative is open have been allocated by some life entities to the interest maintenance reserve (IMR) upon derivative termination. This approach essentially reverses the surplus impact from the unrealized position and defers the realized impact from these derivative structures through the IMR formula with subsequent amortization into income over time.

INT 23-01: Net Negative (Disallowed) IMR, allows losses for interest-rate hedging derivatives that do not qualify for "hedge accounting" under SSAP No. 86 to continue to be allocated to IMR (and admitted if IMR is net negative) if the company has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. The guidance does not permit entities to allocate current derivative losses to IMR without evidence illustrating the historical treatment for gains. This INT was established to provide limited-time exception guidance while IMR is further discussed and is effective through Dec. 31, 2025, with automatic nullification on Jan. 1, 2026. The treatment of the gains and losses from these non-accounting effective hedges is a key element in the long-term guidance for clarifying IMR.

SSAP No. 86 provides guidance on designations that hedge a variety of exposures, with assessments of effectiveness adopted from U.S. GAAP. Derivatives that qualify as "highly effective hedges" are permitted "hedge accounting treatment," which means that the measurement method of the derivative mirrors the measurement method of the hedged item. (This measurement method is different than US GAAP, which requires all derivatives to be at fair value. This different measurement method is necessary under SAP to prevent a measurement mismatch between the hedged item and derivative, which would result in surplus volatility for accounting effective hedges.) Derivatives that do not qualify as "highly effective hedges" under SSAP No. 86 are reported at fair value, which does mirror the measurement method under U.S. GAAP. Pursuant to the IMR Ad Hoc Group discussion, this item is focused on hedges that address interest-rate risk exposure used in macro-hedges, that would not qualify under the effective hedge requirements under SSAP No. 86.

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If the Working Group wants to pursue accounting guidance for macro-hedges focused on hedging interest-rate risk that results with different treatment than what is detailed in SSAP No. 86, the guidance is anticipated to detail:

1) The requirements for the interest-rate hedging derivatives, including effectiveness assessments.

2) The accounting for the derivatives and the resulting gains/losses (including amortization if those gains/losses are deferred from immediate recognition), and

3) Disclosure and reporting requirements for the derivatives.

If developing new guidance, it is anticipated that the concepts of *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* will be followed to the extent possible, but there would need to be variations based on the specific intent and application of these derivatives. A key item to note is that SSAP No. 108 does not use IMR for the reporting of deferred derivative gains and losses and this approach will also be considered within the new guidance for consistency purposes.

Existing Authoritative Literature:

- ***SSAP No. 86—Derivatives***
  SSAP No. 86 provides the broad statutory accounting principles for derivative instruments. The guidance is used to determine whether a derivative qualifies as "effective" and therefore permitted to be accounted for under the "hedge accounting" provisions. (Derivatives that qualify for hedge accounting are reported at the measurement method that mirrors the hedged item. For example, a derivative that qualifies for hedge accounting that is hedging a bond would be reported at amortized cost, to mirror the amortized cost measurement of the bond.) Derivatives that do not qualify for "hedge accounting" are required to be reported at fair value.

  The guidance in SSAP No. 86 is explicit that derivative gains or losses from derivatives that qualify for hedge accounting shall be recognized in a manner consistent with the hedged item. Hence, if the gain/loss on a hedged item was to go to IMR, then the gain/loss on the effective, hedging derivative should also go to IMR. This guidance makes sense, as the derivative gain/loss should predominantly offset the hedged item gain/loss, resulting in a zero (or negligible) impact to IMR.

  SSAP No. 86 requires derivatives which do not qualify as effective to be carried at fair value and changes in fair value are reported in unrealized gains and losses until termination.

- ***SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees***
  SSAP No. 108 provides special accounting treatment for limited derivatives hedging variable annuity guarantee benefits subject to fluctuations as a result of interest rate sensitivity. The items in scope of SSAP No. 108 would not qualify for hedge effectiveness under SSAP No. 86. The guidance is specific in that the provisions are only permitted if all of the components of the statement are met and that the guidance shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the state qualifications or that are not specifically addressed within the guidance.

  The guidance in SSAP No. 108 addresses derivative transactions that reflect a macro-hedge (portfolio of variable annuity contracts) as well as a dynamic hedging approach (rebalancing of derivative instruments). Due to the heightened risk of misrepresentation of successful risk management, specific provisions are detailed to ensure governance of the program as well as to provide sufficient tools for regulators to review.

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Under SSAP No. 108, all derivatives are reported at fair value, and all fair value fluctuations attributed to the hedged risk (unrealized) are compared to the changes in the VM-21 reserve liability. The fair value fluctuations are then 1) recognized to realized gain/loss to offset a current period liability change, 2) recognized as deferred if attributed to the hedged risk but not offsetting a current period liability change or 3) recognized as unrealized if not attributed to the hedged risk. The changes recognized as deferred are amortized over a straight-line method into realized gains/losses via a timeframe that matches the Macaulay duration of the guarantee benefit cash flow, not to exceed 10 years. SSAP No. 108, although specific to interest rate risks, does not take derivative gains or losses to IMR.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
In 2023, the Working Group adopted *INT 23-01: Net Negative (Disallowed) IMR* as short-term guidance and directed efforts towards a long-term resolution of IMR. The IMR Ad Hoc Group, comprised of accountants and actuaries representing regulators and industry, has met to discuss IMR, including the gains/losses from "economic effective" (ALM) derivatives that some reporting entities have been taking to IMR. With those discussions, and an ACLI presentation on ALM derivatives, regulators from the Ad Hoc Group supported moving discussion of potential statutory accounting guidance to the Working Group.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, classified as a new statutory accounting concept, with exposure of this agenda item to obtain comments from Working Group members, as well as interested regulators and interested parties on the potential to develop statutory guidance for macro-derivative programs that hedge interest rate risk for asset-liability matching purposes. Initially, NAIC staff is requesting feedback on the following key concepts:

1) **Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)**

2) **If further development / consideration of guidance is supported, the following items are noted for discussion:**

    a. **Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.**

    b. **Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.**

    c. **Macro-limits on admittable net deferred losses (reported as assets) and other "soft" assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)**

    d. **Timeframes over which deferred items are amortized into income.**

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e. **Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)**

NAIC staff requests direction to work with regulators and industry during the interim to continue discussions and in the consideration of guidance.

Staff Review Completed by: Julie Gann, NAIC Staff—May 2024

Status:
On August 13, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, classified as a new SAP concept, and exposed this agenda item with a request for feedback on the items noted within the above staff recommendation. This item was exposed with a longer comment period ending November 8, 2024. This item is not planned for detailed discussion at the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or at the 2025 Spring National Meeting.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received comments from the prior exposure. Due to the extent of comments, and the complexity of the topic, the Working Group deferred directing staff from moving forward. This item is anticipated to be a focus of discussion at the Spring National Meeting, along with a review of the data reported for IMR derivatives as that information will be data-captured for the year-end 2024 financial statements. This item was not formally re-exposed.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to research and develop possible guidance for certain non-accounting effective derivatives to defer realized gains and losses.

On September 10, 2025, the Statutory Accounting Principles (E) Working Group received a presentation on proposed ALM derivative guidance from the ACLI, along with two drafts of potential statutory accounting guidance. These drafts illustrate possible ALM derivative guidance using 1) an amortized cost method and 2) fair value and spread method. The Working Group exposed the entire package (presentation and both potential options for SAP guidance) with a comment period ending October 31, 2025. Comments are specifically requested on whether guidance for ALM derivatives should be further pursued, and if so, whether the amortized cost or fair value method is preferred.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to move forward in preparing an issue paper and draft SSAP for asset-liability matching derivatives following the amortized cost approach. The group also supported retaining the asymmetrical derivative exclusion at this time. Further, NAIC staff were directed to work with industry and regulators in the interim to determine potential reporting options for derivatives captured within the new guidance.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed a draft SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management as directed from the 2025 Fall National Meeting. In addition to the proposed clean version of the SSAP guidance, a version of the document showing tracked changes from the ACLI's September 10, 2025, proposed guidance was included to clearly illustrate changes. With the exposure and request for comments, the components addressing transition, reporting and admitted asset classification were specifically highlighted.

On May 18, 2026, the Statutory Accounting Principles (E) Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability

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management. The only edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach and clarify amortization of the derivative asset or liability. Exposure intends to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed a revised SSAP and issue paper, with a revised January 1, 2028 effective date, to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. Revisions reflected in the SSAP and issue paper include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.

- Elimination of the elective accelerated amortization provisions.

In addition to the exposure of the revised SSAP and issue paper, the Working Group directed a Life Actuarial (A) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Exposures/IMR & ALM/24-15 - ALM Derivatives.docx

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October 29, 2026

Rachel Hemphill
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: SSAP No. 109 – October 1, 2026 SAPWG Presentation to LATF

Dear Chair Hemphill:

On behalf of the American Academy of Actuaries'[1] Life Investment Analysis Subcommittee (Subcommittee), we appreciate the opportunity to provide comments in response to the Oct.1, 2026 presentation made by Kevin Clark, Chair of the NAIC Statutory Accounting Principles (E) Working Group, regarding the Exposure Draft of SSAP No. 109—Asset Liability Management (ALM) Derivatives and the related draft Statutory Issue Paper 1XX.

The Academy supports the objectives of SSAP 109. We would like to offer the following considerations on the implementation of SSAP 109. Our comments focus on five areas: refining the accepted interest rate sensitivity metrics used to test hedge effectiveness to focus on absolute measures such as DV01 and effective dollar-duration; adjusting the hedge effectiveness tests to better align with industry practices; permitting option-based hedges; not capping the amortization period; and clarifying reinsurance treatment under SSAP 109.

1. Interest Rate Sensitivity Metrics

In the current draft, SSAP 109 defines three interest rate sensitivity metrics that are allowed as part of determining whether a program is highly effective. The Subcommittee offers three refinements for consideration in this section. First, interest rate sensitivities must take into account interest rate sensitivity on an absolute and not a relative basis. Additionally, interest rate sensitivities should be based on effective measures and not static measures. Finally, the SSAP should encourage the use of more rigorous and comprehensive interest rate risk metrics.

Relative vs. Absolute

[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.

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Both modified and Macaulay duration are relative measures of interest rate sensitivity. The duration of two portfolios or instruments can only be directly compared if the two are of the same size (e.g., market value). Otherwise, the size difference between the two can skew the resulting interest rate sensitivity comparison. For example, $1 billion of assets and $500 million of liabilities that each have a duration of 5 would appear matched, yet the assets would gain or lose twice as much value as the liabilities for the same change in rates. Relative measures can also be unstable for derivatives: an interest rate swap typically has a market value near zero, so its duration can be very large or undefined even though its dollar sensitivity is well-behaved.

Static vs. Effective

Both modified and Macaulay duration assume that the cash flows being evaluated are fixed and do not change based on interest rates. Neither is an appropriate measures of price sensitivity for assets or liabilities with any embedded optionality or floating-rate coupons. Effective duration—

a direct measure of change in price of an asset relative to changes in interest rates—is a more appropriate metric for assets and liabilities with path-dependent cash flows. Note that for instruments with non-path dependent cash flows, effective, modified, and Macaulay duration are very similar in magnitude.

Recommended: DV01 or Effective Dollar-Duration

The Subcommittee recommends that only DV01 or effective dollar-duration (EDD) be allowed as interest rate sensitivity metrics for the hedge effectiveness test. DV01 combines the relative interest rate sensitivity of effective duration with a size component (generally market or fair value) to create an absolute interest rate sensitivity that is a more appropriate metric for measuring hedge effectiveness. A similar metric is EDD. The key difference between DV01 and EDD is that DV01 is the dollar value change for a 1-basis point (0.01%) change in the discount rate, while EDD is the dollar value change to a 100-basis point (1.00%) change in interest rates.

Additional Support of Hedge Effectiveness Testing

While DV01 and EDD would be the minimum standards for determining hedge effectiveness under SSAP 109, an insurer employing a strong ALM program will use additional metrics to monitor and define their ALM strategy and practices. These additional metrics can supplement and validate hedge effectiveness under SSAP 109.

Second-order interest rate sensitivities, such as effective dollar-convexity, can illustrate and help a company monitor their interest rate sensitivity to larger interest rate movements. Partial or key-rate metrics measure interest rate sensitivity to different portions of a yield curve. It is important to note that the sum of a complete set of partial or key rate sensitivities is largely equivalent to the result of shifting the entire yield curve.

The Subcommittee recommends that the guidance encourage the use of convexity metrics and ongoing scenario-based sensitivity testing to demonstrate hedge effectiveness, particularly when

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the designated portfolios contain embedded optionality or instruments with highly nonlinear price sensitivities.

2. Hedge Effectiveness Tests—Alternative

The draft exposure allows for a single interest rate sensitivity—the interest rate sensitivity gap between the asset portfolio and the liabilities associated with those assets. This metric is not consistent with how most insurers manage their first-order interest rate sensitivity. Most insurers target a combined asset plus hedge interest rate sensitivity and compare that against the liabilities. The example below illustrates this approach:

Hedge Target: Interest rate sensitivity of assets + hedge equals that of the liability.

Item	Fair / Market / Notional Value	Effective Duration	Effective Dollar-Duration (EDD)[1]
Asset	500	5	2,500
Hedge	50	7	350
Total: Asset + Hedge			**2,850**
Liability	**525**	**6**	**3,150**

[1]Note that EDD = Market Value * Effective Duration

In this example, the hedge effectiveness test, if defined as the ratio of EDD (asset + hedges) vs. EDD (liability), would be 90.5% (2,850/3,150), well within the 80-125% range. However, under the currently proposed test, the hedge EDD (350) would only be 54% (350/650) of the interest sensitivity difference.

While the Subcommittee is comfortable that the proposed effectiveness test could be utilized in some cases, this alternative approach provides a more complete picture of a company's risk management.

A secondary benefit of this alternative approach is that it avoids a mathematical issue inherent in the proposed corridor test: the 80% to 125% corridor measures the derivatives against the DV01 difference between liabilities and non-derivative assets. When that difference is near zero, the denominator approaches zero, and de minimis differences could cause hedge effectiveness failures even when total asset and liability durations are tightly matched.

If a gap-based test is retained, we recommend that LATF consider adding a minimum absolute tolerance, so that near-zero duration differences do not trigger failures when the overall asset-liability match remains within a reasonable range.

3. Excluding Options

From a risk management perspective, there is no conceptual basis for restricting derivatives to linear instruments and excluding caps, floors, swaptions, and other options. In many cases where liabilities and/or assets contain embedded options, utilizing only option-based ALM derivatives or a combination of linear ALM hedges along with option-based hedges would provide a more

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robust ALM risk management program than a dynamically rebalanced approach, which is the only type of program under consideration under SSAP 109.

Option-based hedges are common derivative instruments that may be appropriate for managing interest rate risk. The market value fluctuations during the life of an option may cause the same surplus distortions and period-to-period surplus volatility that SSAP 109 is intended to address. For example, if rates drop and the market value of the option increases while the liability remains unchanged, not deferring the MV gain would allow surplus to increase and potentially overstate a company's financial strength. Although the maximum potential loss is ultimately limited to the option premium, period-to-period market value and surplus fluctuations may exceed the premium (e.g., a large increase in market value from lower interest rates could easily be reversed if interest rates were to subsequently increase).

One potential approach to addressing concerns around deferring premiums and not just interest rate-related changes could be addressed by explicitly excluding the premium from any deferrals.

4. Amortization Cap

The current exposure proposes a 10-year cap on the amortization period for deferred derivative gains and losses. Imposing a strict 10-year limit can create an artificial timing mismatch for life insurance, annuity, and other related liabilities, which frequently have cash flows well beyond 10 years. Forcing the offsetting hedge to amortize over a shorter timeframe is not consistent with a company's actual risk management strategy. Therefore, we recommend permitting the amortization period to align with the remaining life of the hedge, rather than being restricted by the proposed 10-year cap.

This approach is conceptually consistent with the treatment of bonds and IMR. The realized capital gain/(loss) is generally amortized over the remaining maturity of that bond. A 30-year bond purchased five years ago and subsequently sold at a gain would have that gain amortized through IMR over a 25-year period.

5. Treatment of Block Reinsurance Transactions

We recommend further clarification regarding the treatment of deferred derivative gains and losses in the context of block reinsurance transactions. The exposed draft indicates that if the underlying hedged liabilities are derecognized, the associated deferred derivative balances must be immediately recognized as income. While this aligns with standard IMR principles for traditional coinsurance, the guidance does not address varying reinsurance structures where statutory derecognition may not occur strictly, such as Coinsurance with Funds Withheld or Modified Coinsurance (Modco). In these structures, while the underlying interest rate risk is transferred to the reinsurer, the designated statutory assets and/or liabilities often remain on the ceding company's balance sheet. It is felt that the reinsurer could maintain the hedge position(s) and strategy as the cedant previously. The insurer would have the same amortized cost accounting treatment for the investments post-cession. The Subcommittee sees a parallel for a

derivative hedge strategy supporting those same assets and liabilities under a Modco or Coinsurance with Funds Withheld structure and sees a logical parallel that the derivatives continue their cost treatment as long as they are considered hedge effective under SSAP 109. We recommend that the guidance explicitly clarify how the immediate recognition provision and ongoing hedge effectiveness testing apply to these different reinsurance structures to ensure consistent application.

As you continue to move forward with these efforts, the Subcommittee would be happy to present and answer any questions attendees may have.

If you have any questions or would like to discuss these comments further, please contact Marie Fabienne Amisial (Amisial@actuary.org), the Academy's policy project manager, life.

Sincerely,

David Bulin, MAAA, FSA
Interim Chairperson, Life Investment Analysis Subcommittee
American Academy of Actuaries

It seems like the duration measures chosen may be too simplistic for asset and/or liability portfolios with embedded options. We might want to consider effective duration or option adjusted duration.

William B. Carmello, Jr., FSA, MAAA

Chief Life Actuary

New York State Department of Financial Services

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Agenda Item 7

Discuss Work of the

VM-22 (A) Subgroup

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

   Identification:
   NAIC VM-22 (A) Subgroup

   Title of the Issue:
   Provide optional valuation treatment for new settlements/annuitizations on contracts written prior to VM-22 PBR or VM-V

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   2026 Valuation Manual, VM Section II, Subsection 2.C

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See following page

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   During the VM-22 drafting process, there was a request for clarity on the treatment of valuations of settlements/annuitizations that occur after VM-22 PBR is effective on contracts issued prior to VM-22 PBR becoming effective. ~~This amendment provides the company to elect using the valuation treatment of the originally issued contract in these situations, as long as such is approved by the domiciliary commissioner, used consistently for all contracts in scope, and the company does not revert back to using VM-22 PBR in the future.~~ The minimum standard of valuation that applies to the settlement/annuitization from host contracts and life insurance policies that are issued prior to VM-22 PBR becoming effective are the reserve requirements found in VM-A, VM-C, and VM-V that are consistent with the host contract. This amendment allows for the company to elect to use the minimum standard of valuation found in VM-22 with notification to the domiciliary regulator and not disapproved.

Dates: Received	Reviewed by Staff	Distributed	Considered
12/15/2025	A.F.	12/17/2025	
Notes: 2025-19 Exposed by VM-22 Subgroup for 90-day comment period ending March 17, 2026. Motion passed to edits discussed May 20, 2026. Re-exposed by VM-22 Subgroup for X-day period ending M d, 2026			

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VM Section II, Subsection 2.C:

Minimum reserve requirements for non-variable annuity contracts issued prior to 1/1/2026 are those requirements as found in VM-A~~,~~ and VM-C~~, and VM-V~~ as applicable, with the exception of the minimum requirements for the valuation interest rate for contracts specified in VM-V Section 1.A.2. ~~single premium immediate annuity contracts, and other similar contracts, issued after Dec. 31, 2017, including those fixed payout annuities emanating from host contracts specified in VM-V Section 1.A.2.d, Section 1.A.2.e, Section 1.A.2.f, Section 1.A.2.g or Section 1.A.2.hissued on or after Jan. 1, 2017, and on or before Dec. 31, 2017.~~ The maximum valuation interest rate requirements for those contracts specified in VM-V Section 1.A.2 ~~and fixed payout annuities~~ are defined in VM-V, Statutory Maximum Valuation Interest Rates for Formulaic Reserves.

Minimum reserve requirements for non-variable annuity contracts issued on 1/1/2026 and later are those requirements as found in VM-22, with the exception of Preneed Annuities, Guaranteed Investment Contracts, Synthetic Guaranteed Investment Contracts, Funding Agreements, and other Stable Value Contracts which shall follow the requirements found in VM-A, VM-C, and VM-V.

For the contracts, options, and payment streams listed below, with ~~approval from~~ notification to the domiciliary commissioner and not disapproved, the company may elect to use the minimum standard of valuation found in VM-22, rather than following ~~to~~ the reserve requirements found in VM-A, VM-C, and VM-V as applicable:

i.) the election of an annuitization option or settlement option on a deferred annuity contract or a life insurance contract with a date of issue ~~on or after Jan. 1, 2017, but~~ before Jan~~-~~ 1, 2026, where proceeds have been elected to be received periodically as a life-contingent payout annuity or as an annuity certain on or after Jan. 1, 2026,

ii.) fixed payout annuities emanating from contracts issued ~~on or after Jan. 1, 2017, but~~ before Jan 1, 2026, with a date of annuitization on or after Jan. 1, ~~-~~2026,

iii.) fixed income payment streams attributable to contingent deferred annuities issued ~~after Dec. 31, 2017, but~~ before Jan 1, 2026, whose underlying contract funds are exhausted on or after Jan. 1, 2026, and

iv.)~~-~~ fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts issued ~~after Dec. 31, 2017, but~~ before Jan 1, 2026, and whose contract funds are exhausted on or after Jan. 1, 2026.

v.) fixed income payment streams attributable to settlement options taken on life insurance or annuity contracts not subject to VM-20, VM-21, or VM-22 requirements.

This election must be made at the policy form level for the host contract or life insurance policy.

When following the minimum standard of valuation applicable to the host contract for the options and payment streams defined in (i) to (v) above, the company shall use the election date of the settlement/annuitization for determining the minimum valuation interest rate. ~~If elected, all contracts, options, and payments streams found in (i) to (iv) above, including those newly issued, must~~

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~~consistently use the reserve requirements found in VM-A, VM-C, VM-V (i.e., there can be no mixing and matching between VM-A/VM-C/VM-V and VM-22 valuation treatment for different segments of applicable contracts, options, and payment streams). In addition, once~~ If electing to use the reserve requirements found in ~~VM-A, VM-C, and VM-V~~ VM-22 for the contracts, options, and payment streams described in (i) to (~~i~~v) above, the election date of the settlement/annuitization is used for determining the minimum valuation interest rate~~the company shall no longer be allowed to follow VM-22 requirements for any of those contracts, options, and payment streams, including those newly issued~~.

The minimum reserve requirements of VM-22 are considered PBR requirements for purposes of the Valuation Manual, and therefore are applicable to VM-G.

Commented [AF1]: ACLI:
When following the minimum standard of valuation applicable to the host contract for the options and payment streams defined in (i) to (v) above, the company may elect to use the issue date of the host contract or life insurance policy, or the election date of the settlement/annuitization for determining the minimum valuation interest rate. If elected, all contracts, options, and payments streams found in (i) to (iv) above, including those newly issued, must consistently use the reserve requirements found in VM-A, VM-C, VM-V (i.e., there can be no mixing and matching between VM-A/VM-C/VM-V and VM-22 valuation treatment for different segments of applicable contracts, options, and payment streams). In addition, once electing to use the reserve requirements found in VM-22 for the contracts, options, and payment streams described in (i) to (v) above, the election date of the settlement/annuitization is used for determining the minimum valuation interest rate.

Commented [AF2R1]: **SG agreed on 5/20 call to the following paragraph for exposure:**
When following the minimum standard of valuation applicable to the host contract for the options and payment streams defined in (i) to (v) above, the company shall use the election date of the settlement/annuitization for determining the minimum valuation interest rate. If electing to use the reserve requirements found in VM-22, for the contracts, options, and payment streams described in (i) to (v) above, the election date of the settlement/annuitization is used for determining the minimum valuation interest rate.

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Date: September 15, 2026

Virginia is submitting comments regarding the following exposure:

APF 2025-19 (Settlement Options)

Comments:

1. In regards to the third paragraph that starts out: ”For the contracts, options, and payment streams…”, this paragraph should be combined with the second paragraph, since the third paragraph only applies to non-variable annuity contracts issued on 1/1/2026 or later. In addition, the paragraph as written does not identify the default standard of valuation as being VM-A, VM-C, and VM-V. Also, “or life insurance policy” should be added after “host contract”, as mentioned under item number 4 of the introduction of the APF that the settlement/annuitization may arise “from host contracts and life insurance policies”. Also, the last part of the paragraph is redundant and should be removed. The paragraph should be re-written as follows:

   “For the contracts, options, and payment streams listed in (i) through (v) below, the minimum reserve requirements are those requirements found in VM-A, VM-C and VM-V that are consistent with the host contract or life insurance policy, with the exception that, with notification to the domiciliary commissioner and not disapproved, the company may elect to use the minimum standard of valuation found in VM-22.~~, rather than following the reserve requirements found in VM-A, VM-C, and VM-V, as applicable:”~~

2. In the first sentence of the second paragraph following items (i) through (v) that starts out: “When following the minimum standard of valuation…”, the phrase “or life insurance policy” should be added after “host contract” to be consistent with above language, so that the first sentence of the paragraph should read as follows:

   “When following the minimum standard of valuation applicable to the host contract or life insurance policy for the options and payment streams defined in (i) to (v) above, the company shall use the election date of the settlement/annuitization for determining the minimum valuation interest rate.”

Thank you for your consideration of these comments.

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September 22, 2026

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

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

Re: 2026 Summer National Meeting Exposure of APF 2025-19 (Settlement Options)

Dear Chair Slutsker and Vice Chair Lam:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional commentary on the 2026 NAIC Summer National Meeting exposure of Amendment Proposal Form (APF) 2025-19 which aims to provide optional valuation treatment for new settlements/annuitizations on contracts written prior to VM-22 PBR or VM-V. We are supportive of the general direction of the APF but would like to offer some suggestions and editorial changes that we believe will strengthen the document in terms of its intended scope and clarity.

ACLI encourages regulators to clarify the intended treatment of supplementary contracts. Given that these contracts are substantively similar to annuitizations, settlement options, and fixed payout annuities arising from deferred annuity and life insurance contracts, we believe it is reasonable to interpret supplementary contracts as falling within the scope of sections (i) and (ii) of the APF. Other sections of the Valuation Manual also distinguish supplementary contracts from annuitizations and settlement options (for example, VM-V sections A.2 and C.2), creating potential ambiguity regarding the intended scope of the proposal. To avoid inconsistent interpretation and application, we recommend revising the APF to explicitly clarify the treatment of supplementary contracts.

Regarding timing, the APF makes VM-22 mandatory for settlement options on contracts issued on 1/1/2026 or later. ACLI would prefer the amendment use the mandatory VM-22 adoption date of 1/1/2029 instead of the optional adoption date of 1/1/2026. If a company delays implementation of VM-22 until 1/1/2029, they could have contracts issued in 2026-2028 that are reserved for under VM-A, VM-C and VM-V where any settlement option would have to be reserved for under VM-22. Therefore, changing the date in the APF to 1/1/2029 could alleviate this issue. With this modification the APF would still allow for the use of VM-22 on settlement options for contracts issued prior to 1/1/2029 with notification to the domiciliary regulator and not disapproved.

The American Council of Life Insurers (ACLI) 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 94 percent of industry assets in the United States.

Finally, from an editorial perspective, there is an extra "and" in the markup of VM Section II, Subsection 2.C after part iii but ACLI believes it is supposed to be after part iv.

Thank you once again for the consideration of our feedback and we look forward to additional discussion on this APF soon.

Sincerely,



cc: Amy Fitzpatrick, NAIC

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VM-22 Subgroup Chair Exposure

VM-22 Inforce Exposure from Summer 2026 National Meeting

The following documentation will be required for regulatory non-objection of transition from pre-PBR to PBR for existing non-variable annuity blocks by 2031 or 2032:

- Reserve comparison (pre-PBR vs. PBR)
- Attribution analysis and commentary
- Key metrics (duration, asset yield, sensitivity to interest rates/key assumptions, margins, drivers of reserve change, negative IMR allocation)
- Sensitivity testing (to determine changes due to underlying economics vs. insurance assumptions)
- Narrative on anticipated company cash flow testing impacts
- List of existing reinsurance arrangements for which collateral levels would be impacted by moving to PBR requirements, particularly highlighting arrangement that are in scope of AG 55 requirements
- Requirement for explanation of key drivers of PBR changes for the inforce PBR block on a stand-alone basis in VM-31 for [four] years following initial implementation (note VM-31 currently requires this in aggregate)

Exposure Questions

a. **Please provide a redline of changes to the NAIC Valuation Manual for VM-22 PBR to accommodate inforce contracts**

b. **Please provide a list of specific attribution categories and types of sensitivity testing to consider in the required documentation**

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October 30, 2026

Ben Slutsker, Chair
Valuation Manual (VM)-22 (A) Subgroup, Life Actuarial (A) Task Force
National Association of Insurance Commissioners (NAIC)

Re: VM-22 Subgroup Chair Exposure

Dear Chair Slutsker:

On behalf of the Annuity Reserves and Capital Subcommittee (ARCS) of the American Academy of Actuaries[1], we appreciate the opportunity to provide a proposed framework for optional retrospective application of VM-22 to eligible in-force non-variable annuity business and are pleased to provide the following comments.

Our recommendation is to create a new Section 14 within VM-22 to provide a limited path to retrospective adoption while preserving regulatory transparency and appropriate safeguards. This section would only be used by companies that utilize optional retrospective adoption and would require two additional changes to VM-22 Section 2.B and VM Section II, Subsection 2.C. The framework intentionally uses materiality and applicability concepts so that regulatory review focuses on meaningful impacts without requiring unnecessary analysis. There would be no additional analysis required under this section for companies that remain prospective only.

Key design assumptions reflected in the proposed Section 14

- *Optional, one-time election*: A company may elect VM-22 for one or more Eligible Retrospective Blocks, but the company may make the election only once. Blocks not included in that election cannot be added later, and adoption is irrevocable for elected blocks.

- *Eligible blocks*: Eligible business generally consists of contracts that would otherwise be within VM-22, were issued or assumed on or after Jan. 1, 2017 are not already required to be valued under VM-22 and are valued immediately before adoption under VM-A, VM-C, VM-M, and VM-V. Blocks are based on similar product forms and characteristics and may not be subdivided solely for purposes of retrospective adoption.

- *Timing and regulatory review*: The current draft contemplates adoption during the bracketed 2028-2031 period. A formal election request would be submitted to the domiciliary commissioner by July 1 of the adoption year, subject to rejection before Oct. 1, with advance regulatory discussions encouraged.

[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.

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Required Analysis

- *Reserve impact and aggregation*: For adopted blocks, companies would compare the Pre-Adoption Reserve with standalone and aggregated VM-22 results, including pre- and post-reinsurance-ceded results where applicable. Companies would also identify all eligible blocks, including those not adopted, and explain the basis for the selection. Aggregation analysis would separately show the effect of each adopted block, all adopted blocks, and, subject to a reasonable exception, all eligible blocks.

- *Drivers and sensitivities*: Material reserve changes would be supported by attribution analysis, relevant risk and economic metrics, and sensitivity testing sufficient to distinguish effects from methodology, economics, and insurance assumptions. The analysis would also address asset adequacy or cash-flow-testing impacts, including AG 53 and AG 55 where applicable.

- *Assets, reinsurance, and ongoing reporting*: Companies would reconcile starting assets, explain asset allocation and material movements, demonstrate that assets are not double counted, and identify material reinsurance and collateral impacts. The adoption-year VM-31 report would include or reference the supporting analysis, followed by four annual valuation dates of standalone reporting on material changes for the retrospectively adopted blocks.

We believe the proposed Section 14 provides the greater clarity and detail into potentially large movements in statutory reserves. Additionally, we believe that, if the Task Force moves forward with our recommendation, the creation of a prescribed template for reporting would provide consistency and comparability across companies for regulators. The following sections contain the proposed edits along with the new Section 14.

Proposed Conforming Amendments

VM-22 Section 2.B - Transition. Add the following sentence at the end of Section 2.B:

"Notwithstanding the foregoing, a company may elect to apply the requirements of VM-22 to eligible in-force business pursuant to the optional retrospective adoption requirements of Section 14."

Valuation Manual Section II, Subsection 2.C - Annuity Products. Add the following sentence to the provisions addressing non-variable annuity contracts issued prior to Jan. 1, 2026:

"Notwithstanding the foregoing, contracts otherwise subject to the requirements of this Paragraph may be valued under VM-22 pursuant to an election made in accordance with VM-22 Section 14."

Proposed Section 14: Optional Retrospective Adoption for In-Force Business

A. Purpose and Scope

1. At the option of the company, and subject to the requirements of this Section, a company may make a one-time election prior to [date] to apply the requirements of VM-22 to one or more Eligible Retrospective Blocks.

2. An Eligible Retrospective Block shall consist of contracts, certificates, or contract features that:

a. Would fall within the scope of VM-22 Section 2.A based on the nature of the contract, certificate, or contract feature;

b. Were issued or assumed on or after Jan. 1, 2017;

c. Are not otherwise required to be valued under VM-22 as of the Retrospective Adoption Date

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solely as a result of the applicable issue date, assumption date, or the transition provisions of VM-22 Section 2.B; and

d. Are valued immediately prior to the Retrospective Adoption Date pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V.

3. Contracts, certificates, or contract features issued or assumed prior to Jan. 1, 2017 shall not be eligible for the election provided by this Section.

B. Definitions

For purposes of this Section:

1. **Eligible Retrospective Block** means a block of business satisfying the requirements of Section 14.A.2. A company may have more than one Eligible Retrospective Block, pursuant to Section 14.C.6.

2. **Retrospective Adoption Date** means the valuation date in calendar year [2028, 2029, 2030, or 2031] on which the company first applies the election provided by this Section.

3. **Retrospectively Adopted Block** means an Eligible Retrospective Block that the company elects to value under VM-22 pursuant to this Section.

4. **Pre-Adoption Reserve** means the minimum statutory reserve that would be held for an Eligible Retrospective Block on the Retrospective Adoption Date in the absence of the election provided by this Section, determined pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V.

5. **Existing VM-22 Business** means contracts, certificates, or contract features already valued under VM-22 immediately prior to the Retrospective Adoption Date.

6. **VM-22 Reserve** means the final reserve as described in VM-22 Section 3.A and includes any required reserve strengthening driven by the Additional Standard Projection Amount (ASPA), reflecting applicable support, as described in Section 3.C. If the company uses the Deterministic Reserve (DR), the company shall provide the associated documentation for passing the Single Scenario Tests.

C. Election Requirements

1. A company may elect retrospective adoption for one or more Eligible Retrospective Blocks. A company shall not be required to elect retrospective adoption for all Eligible Retrospective Blocks.

2. The election under this Section may be made only once by a company. All Eligible Retrospective Blocks for which the company elects retrospective adoption shall be identified as part of that election.

3. After making the election under this Section, the company cannot subsequently elect retrospective adoption for an Eligible Retrospective Block that was not included in the original election.

4. A company that has not made an election under this Section by [Dec. 31, 2031] shall not thereafter make an election under this Section.

5. The election to apply VM-22 to a Retrospectively Adopted Block shall be irrevocable. The company shall continue to apply the requirements of VM-22 to such block for all future valuation dates.

6. An Eligible Retrospective Block shall be determined based on similar product forms and product

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characteristics and shall be defined in a manner consistent with the manner in which the company manages, models, and evaluates the risks of the business. A company shall not subdivide an otherwise similar block of business solely for purposes of retrospective adoption.

7. Prior to implementing the election, the company shall submit to its domiciliary commissioner the documentation and analyses required by this Section. The election request must be provided by July 1 of the calendar year of adoption. The domiciliary commissioner can reject such statement prior to October 1 of that calendar year.

Guidance Note: *Given the potentially significant extent of the analysis leading to the election request and the review by the regulators, in order to allow for sufficient time to meet these timelines, companies are expected to have discussions with the regulator prior to their submission of their election request. This will allow for potential modifications prior to formal submission of the election request.*

8. The submission shall identify:

a. Each Eligible Retrospective Block;

b. Each Eligible Retrospective Block the company proposes to retrospectively adopt;

c. Each Eligible Retrospective Block the company proposes not to retrospectively adopt; and

d. The rationale for the company's determination with respect to each block.

D. Initial Evaluation and Reserve Impact Analysis

1. The company shall provide an analysis sufficient to demonstrate the impact of transitioning each Retrospectively Adopted Block from the Pre-Adoption Reserve methodology to VM-22. The analysis shall reflect the requirements across the entirety of Section 14.

2. For each Retrospectively Adopted Block, the company shall determine, as of the Retrospective Adoption Date:

a. The Pre-Adoption Reserve on a standalone basis;

b. The VM-22 reserve on a standalone basis before aggregation with Existing VM-22 Business or other Retrospectively Adopted Blocks;

c. The benefit of aggregation as described in Section 6.A.1.a;

d. The VM-22 reserve after application of the aggregation permitted by Section 3.F; and

e. Where applicable, each amount in Subsections a. through d. on both a pre-reinsurance-ceded and post-reinsurance-ceded basis.

3. For each Eligible Retrospective Block that the company does not propose to retrospectively adopt, the company shall determine the Pre-Adoption Reserve and a standalone VM-22 reserve as of the Retrospective Adoption Date, unless the company provides a reasonable rationale for not performing the calculation. The rationale shall describe why the calculation would not provide meaningful information or would impose effort disproportionate to the relevance of the block to the company's retrospective adoption decision. Such rationale may consider, among other matters, the size, materiality, and/or closed-block status of the business.

4. For each Retrospectively Adopted Block, the company shall provide an attribution analysis that reconciles the Pre-Adoption Reserve to the VM-22 reserve and identifies and explains all material

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drivers of the difference. The attribution analysis may include:

a. Differences in reserve methodology;

b. Starting asset selection and asset allocation;

c. Asset yield and reinvestment assumptions;

d. Policyholder or contract holder behavior assumptions;

e. Mortality or longevity assumptions;

f. Expense assumptions;

g. Assumption margins;

h. Reinsurance;

i. Treatment and allocation of IMR or PIMR, including any negative IMR amount, as applicable;

j. Aggregation; and

k. Other material drivers.

5. The level of granularity used in the attribution analysis shall be sufficient to identify and explain the material drivers of the reserve change without requiring immaterial analyses that do not provide meaningful additional information.

6. The company shall provide key risk and economic metrics sufficient to place the reserve impact in the context of the underlying risk profile of the business. Such metrics shall include, as applicable:

a. Asset and liability duration;

b. Asset yield;

c. Interest rate sensitivity;

d. Sensitivity to other material assumptions;

e. The level and impact of margins;

f. A description of the economic scenarios materially contributing to the reserve result; and

g. Any other metrics used by the company to evaluate the principal drivers of the reserve change.

7. Where the difference between the Pre-Adoption Reserve and the VM-22 reserve, or an individual driver of such difference, is material, the company shall perform sensitivity testing sufficient to distinguish the extent to which the difference results from:

a. Changes in underlying economic conditions or economic assumptions;

b. Differences in insurance assumptions; and

c. Differences in reserve methodology.

8. The company shall provide a narrative describing the anticipated impact of retrospective adoption on the company's asset adequacy analysis or other cash-flow testing applicable to the business. This narrative should include, where applicable, impacts on AG-53 and/or AG-55 analyses.

Guidance Note: *The Pre-Adoption Reserve and VM-22 reserve comparisons required by this Section are intended to be performed as of the same valuation date so that the effect of the change in reserve framework can be distinguished from changes arising solely from the passage of time or changes in economic conditions.*

E. Aggregation Analysis

1. All analyses under this Subsection shall reflect the aggregation requirements and limitations of

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Section 3.F, including the applicable Reserving Categories, model segments, and requirements governing aggregation of the Payout Annuity Reserving Category and Accumulation Reserving Category.

2. For each Retrospectively Adopted Block, the company shall separately calculate the impact of aggregating that block with Existing VM-22 Business, without including other Retrospectively Adopted Blocks in the calculation.

3. The company shall calculate the aggregate reserve after combining all Retrospectively Adopted Blocks with Existing VM-22 Business and shall quantify the resulting aggregation impact.

4. The company shall calculate the reserve assuming all Eligible Retrospective Blocks are valued under VM-22 and aggregated with Existing VM-22 Business to the extent permitted under Section 3.F, whether or not all such blocks are proposed for retrospective adoption. A company may omit one or more Eligible Retrospective Blocks from this calculation if the company provides the rationale described in Section 14.D.3.

5. If aggregation occurs across the accumulation and payout reserving categories, the company shall provide commentary on any impact, or lack thereof, on the aggregation benefit that is due to the cash surrender value floor.

6. The company shall explain material differences among:

a. The sum of the standalone VM-22 reserves for the Retrospectively Adopted Blocks;

b. The results of adding each Retrospectively Adopted Block individually to Existing VM-22 Business;

c. The result of aggregating all Retrospectively Adopted Blocks with Existing VM-22 Business; and

d. The result of applying VM-22 to all Eligible Retrospective Blocks.

7. The company shall provide descriptive information explaining its decision to retrospectively adopt or not retrospectively adopt each Eligible Retrospective Block, including an explanation of any material reserve decrease arising from the blocks selected for retrospective adoption.

F. Starting Assets and Asset Allocation

1. For each Retrospectively Adopted Block, the company shall provide a reconciliation of the assets supporting the block immediately prior to the Retrospective Adoption Date to the starting assets used in determining the VM-22 reserve.

2. The company shall describe the methodology and rationale used to allocate assets among:

a. Retrospectively Adopted Blocks;

b. Existing VM-22 Business; and

c. Business not valued under VM-22.

3. The company shall demonstrate that the asset allocation used for purposes of VM-22 is consistent with the company's actual asset management practices and, where applicable, with the asset allocation used in the setting of non-guaranteed elements.

4. The company shall demonstrate that assets supporting Retrospectively Adopted Blocks have not been counted simultaneously as supporting other business for purposes of a principle-based valuation or other reserve analysis.

5. The company shall provide descriptive statistics regarding the economic risk position of the assets

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allocated to Retrospectively Adopted Blocks and, where material, the residual general account following such allocation. Such information shall include, as applicable:

a. Effective duration;

b. Interest rate risk metrics;

c. Market value and book value;

d. Asset yield;

e. Market value by issue year or weighted average life;

f. Implied net spread or other measure of asset yield relative to the cost of funds; and

g. The allocation of IMR or PIMR, including any negative IMR amount, as applicable.

6. The company shall provide an analysis of movements in assets allocated to the Retrospectively Adopted Blocks in connection with the election. Material movements beyond routine acquisition and disposition activity shall be identified and explained.

7. The company shall perform sensitivity testing using one or more reasonable alternative starting asset allocations, such as a pro rata allocation of the relevant general account assets or an appropriate benchmark starting portfolio, if such testing is necessary to demonstrate that the starting asset selection does not materially or inappropriately influence the VM-22 reserve.

8. To the extent applicable, the company shall provide descriptive information regarding the assets selected for and excluded from the VM-22 calculation using asset classifications or other information consistent with Actuarial Guideline LIII, including Net Market Spread and Guideline Excess Spread where available. The company shall describe the basis for including or excluding material asset classes and the manner in which material complex assets are valued and modeled.

G. Reinsurance

1. All requirements of Section 5 shall apply to Retrospectively Adopted Blocks.

2. The company shall identify all material reinsurance agreements applicable to each Retrospectively Adopted Block and shall describe the impact of retrospective adoption on the treatment of such agreements under VM-22.

3. The company shall identify any existing reinsurance agreement for which collateral requirements or collateral levels are expected to be materially affected by the retrospective adoption of VM-22, with particular identification of arrangements subject to Actuarial Guideline LV.

4. For any agreement identified pursuant to Section 14.G.3, the company shall describe:

a. The nature of the expected change in collateral requirements;

b. The relationship of the change to the change in statutory reserves; and

c. Any material effect on the pre-reinsurance-ceded or post-reinsurance-ceded reserve results.

5. The reserve impact and attribution analyses required by this Section shall separately identify material effects arising from reinsurance.

H. Documentation and Ongoing Reporting

1. The analyses and documentation required by this Section shall be prepared under the direction of the qualified actuary assigned responsibility for the applicable groups of contracts pursuant to VM-G.

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2. The documentation submitted for regulatory non-objection shall be sufficient for another actuary qualified in the same practice area to understand:

a. The blocks eligible for retrospective adoption;

b. The blocks selected and not selected;

c. The reserve impact of the election;

d. The principal assumptions and methods underlying the analysis;

e. The effect of aggregation;

f. The basis for the starting asset allocation;

g. The sensitivity analyses performed; and

h. The conclusions reached by the company regarding election or non-election of blocks of business.

3. For the valuation year in which the election is implemented, the PBR Actuarial Report required by VM-31 shall identify each Retrospectively Adopted Block and shall include, or clearly reference, the material results of the analyses required by this Section, including:

a. Reserve comparisons;

b. Attribution analysis;

c. Aggregation analysis;

d. Key risk and economic metrics;

e. Sensitivity testing;

f. Starting asset and asset allocation analysis;

g. Reinsurance and collateral impacts; and

h. The anticipated impact on cash-flow testing.

4. For each of the four annual valuation dates following the Retrospective Adoption Date, the company shall provide in the PBR Actuarial Report an analysis of the material changes in the VM-22 reserve attributable to the Retrospectively Adopted Blocks on a standalone basis. Such analysis shall identify and explain the principal drivers of change, including material changes in:

a. In-force business;

b. Economic conditions;

c. Assumptions and margins;

d. Methodology;

e. Asset strategy or asset allocation;

f. Reinsurance; and

g. Aggregation.

5. The standalone reporting required by Section 14.H.4 shall be provided notwithstanding that a Retrospectively Adopted Block is aggregated with other VM-22 business for purposes of determining the reported aggregate reserve.

6. After completion of the reporting period specified in Section 14.H.4, Retrospectively Adopted Blocks shall be subject to the same ongoing reporting requirements as other business valued under VM-22, unless otherwise required by the domiciliary commissioner.

7. The company shall retain the analyses and supporting documentation required by this Section in

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accordance with the applicable documentation retention requirements of VM-31 and VM-G.

Thank you for your consideration of these comments. Please contact Marie Fabienne Amisial (Amisial@actuary.org), the Academy's policy project manager, life, if you have any questions or would like to discuss these comments further.

Sincerely,

Bruce Friedland, MAAA, FSA
Chairperson, Annuity Reserves and Capital Subcommittee

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October 30, 2026

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

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

Re: The 2026 Summer National Meeting VM-22 Inforce Application Exposure

Dear Chair Slutsker and Vice Chair Lam:

The American Council of Life Insurers (ACLI) appreciates the opportunity to in response to the latest exposure in the effort to allow for possible retrospective application of Valuation Manual Chapter 22 (VM-22) requirements to applicable business that was inforce between 1/1/2017 and 1/1/2026. We would also like to take this time to thank regulators and staff from the Subgroup and the Life Actuarial (A) Task Force (LATF) for all the work and productive conversations that have occurred on this topic including, most recently, at the 2026 NAIC Summer National Meeting.

Included in our submission, ACLI provides a redline of the Valuation Manual incorporating an optional but binding VM-22 retrospective application election to specific policy forms for companies that will go into effect if not rejected by the domiciliary commissioner. There is a separate document for a VM-22 Appendix that would capture the specific requirements of documentation. This redline should be a good starting point in discussions to lead to a timely adoption of these requirements to assist companies in planning.

The redline reflects the required documentation noted in the exposure unless noted below, including a reserve comparison, attribution analysis and commentary, key metrics, sensitivity testing, narrative on cash flow testing impacts, impact on reinsurance arrangements, and key drivers of changes. We note the following sections redlined in our submission:

- VM Section II.2.C.
- VM Section II.3.B.
- VM-22 Section 2.A.
- VM-22 Section 2.B.
- VM-22 Appendix 1 (new)
- VM-30 Section 1.A.6.

The American Council of Life Insurers (ACLI) 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 94 percent of industry assets in the United States.

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- VM-31 Section E.12.

The one area we did not reflect in the exposure was the ending implementation date. There are several reasons for this omission that warrant consideration by the Subgroup and Task Force:

- Would the cutoff prohibit a block sold or reinsured to apply VM-22 methodology if occurring after the last allowable year of submission?
- What is the consequence of an election being rejected in the last allowable year of submission?
- Does a cutoff date comport with the authority provided to the domestic regulator under the Standard Valuational Law (Model #820)?

Thank you all once again for the opportunity to submit this feedback and we look forward to continuing conversations on this topic soon. If there are any questions, comments, or concerns, please do not hesitate to reach out to a member of ACLI's staff.

Sincerely,



cc: Amy Fitzpatrick, NAIC

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Definitions for Terms in Requirements

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VM-22: Requirements for Principle-Based Reserves for Non-Variable Annuities 22-1
VM-30: Actuarial Opinion and Memorandum Requirements 30-1
VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation 31-1

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II. Reserve Requirements

Subsection 2: Annuity Products

A. This subsection establishes reserve requirements for all contracts classified as annuity contracts as defined in SSAP No. 50 in the AP&P Manual.

B. Minimum reserve requirements for variable annuity (VA) contracts and similar business, specified in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, shall be those provided by VM-21. The minimum reserve requirements of VM-21 are considered PBR requirements for purposes of the *Valuation Manual,* and therefore are subject to VM-G.

C. Minimum reserve requirements for non-variable annuity contracts issued prior to 1/1/2026 are those requirements as found in VM-A, VM-C, and VM-V as applicable, with the exception of the minimum requirements for the valuation interest rate for single premium immediate annuity contracts, and other similar contracts, issued after Dec. 31, 2017, including those fixed payout annuities emanating from host contracts issued on or after Jan. 1, 2017, and on or before Dec. 31, 2017. The maximum valuation interest rate requirements for those contracts and fixed payout annuities are defined in VM-V, Statutory Maximum Valuation Interest Rates for Formulaic Reserves.

Minimum reserve requirements for non-variable annuity contracts issued on 1/1/2026 and later are those requirements as found in VM-22, with the exception of Preneed Annuities, Guaranteed Investment Contracts, Synthetic Guaranteed Investment Contracts, Funding Agreements, and other Stable Value Contracts which shall follow the requirements found in VM-A, VM-C, and VM-V. Minimum reserve requirements for fixed payout annuities resulting from the exercise of settlement options or annuitizations of host contracts, as well as fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts with guaranteed living benefits once the contract funds are exhausted, are those requirements as found in VM-22, with the exception that, with the permission of the domiciliary commissioner, the company may use the same maximum valuation interest rate used to value payment streams in accordance with the guidance applicable to the host contract. The minimum reserve requirements of VM-22 are considered PBR requirements for purposes of the *Valuation Manual,* and therefore are applicable to VM-G.

VA contracts in payout phase administered as fixed payout contracts can be reserved for under VM-21 with domiciliary commissioner notification, if not rejected by the domiciliary commissioner.

A company may elect to apply the minimum reserve requirements of VM-22 to annuity contracts issued on or after Jan. 1, 2017, that would have been subject to VM-22 if issued on or after Jan. 1, 2026. The election shall be made in accordance with the requirements in VM-22 Appendix 1, VM-30, and VM-31. The company shall provide notice of the election to its domiciliary commissioner. If the election is not rejected by the domiciliary commissioner within 6 months of submission of the reporting required under VM-22 Appendix 1, the company may apply VM-22 to the elected contracts.

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Subsection 3: Deposit-Type Contracts

A. This subsection establishes reserve requirements for all contracts classified as deposit-type contracts defined in SSAP No. 50 in the AP&P Manual.

B. Minimum reserve requirements for deposit-type contracts are those requirements as found in VM-A, VM-C, VM-V, and VM-22, as applicable.

A company may elect to apply the minimum reserve requirements of VM-22 to deposit-type contracts issued on or after Jan. 1, 2017, that would have been subject to VM-22 if issued on or after Jan. 1, 2026. The election shall be made in accordance with the requirements in VM-22 Appendix 1, VM-30, and VM-31. The company shall provide notice of the election to its domiciliary commissioner. If the election is not rejected by the domiciliary commissioner within 6 months of submission of the reporting required under VM-22 Appendix 1, the company may apply VM-22 to the elected contracts.

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VM-22: Requirements for Principle-Based Reserves For Non-Variable Annuities

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Section 2: Scope and Effective Date

A. Scope

Applicable non-variable annuity contracts specified in VM Section II, Subsection 2 "Annuity Products", Paragraphs C and D and "Deposit-Type Contracts" not otherwise excluded by VM Section II, Subsection 2.C are subject to VM-22 requirements. These requirements also apply to contracts issued on or after Jan. 1, 2017, for which a company elects to apply VM-22 pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable. Such an election is subject to the requirements of VM-22 Appendix 1, VM-30, and VM-31.

B. Effective Date & *Transition*

Effective Date

These requirements apply for valuation dates on or after January 1, 2026.

For contracts issued on or after Jan. 1, 2017, and before Jan. 1, 2026, for which a company elects to apply VM-22 pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable, these requirements apply beginning on the valuation date specified in the election made in accordance with VM-22 Appendix 1.

Transition

A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V for business otherwise subject to VM-22 PBR requirements and issued during the first three years following the effective date of VM-22. If a company during the three-year transition period elects to apply VM-22 PBR to a block of such business, then a company must continue to apply the requirements of VM-22 for future valuations of this business. Irrespective of the transition date, a company shall apply VM-22 PBR requirements to all applicable blocks of business on a prospective basis starting three years after the effective date.

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VM-30: ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS

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Section 1: Scope

A. General

1. The following provisions contain the requirements for the actuarial opinion of reserves and for supporting actuarial memoranda in accordance with Section 3 of Model #820, and are collectively referred to as Actuarial Opinion and Memorandum (AOM) requirements. For purposes of these VM-30 requirements, the term "actuarial opinion" means the opinion of an appointed actuary regarding the adequacy of reserves and related actuarial items pursuant to these AOM requirements for companies that file the life, A&H annual statement or the fraternal annual statement.

2. Actuarial opinion and supporting actuarial memoranda requirements are provided in VM-30 for companies that file the life, A&H annual statement or the fraternal annual statement. Companies that file the property/casualty (P/C) annual statement or the health annual statement will follow the actuarial opinion and supporting actuarial memoranda requirements pursuant to the instructions for those annual statements. Such companies are not subject to actuarial opinion and supporting actuarial memoranda requirements in this VM-30 unless the instructions for the P/C annual statement or the instructions for the health annual statement provide for requirements in VM-30.

Guidance Note: It is the intent to allow the annual statement instructions to address all issues relating to the actuarial opinion and memorandum for these two statements (P/C annual statement and the health annual statement), but not preclude the use of requirements as appropriate in VM-30 in the instructions for these two statements.

3. The AOM requirements shall be applied in a manner that allows the appointed actuary to use his or her professional judgment in performing the actuarial analysis and developing the actuarial opinion and supporting actuarial memoranda, conforming to relevant ASOPs. However, a state commissioner has the authority to specify methods of analysis and assumptions when, in the commissioner's judgment, these specifications are necessary for the actuary to render an acceptable opinion relative to the adequacy of reserves and related actuarial items. For purposes of VM-30, the requirements of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48), of the AP&P Manual, shall be applicable. For purposes of VM-30, the requirements of *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), of the AP&P Manual, shall be applicable.

4. These AOM requirements are applicable to an annual statement with a year-ending date on or after the operative date of the *Valuation Manual*. A statement of actuarial opinion on the adequacy of the reserves and related actuarial items and a supporting actuarial memorandum is required each year.

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5. The requirements for an opinion apply to each company filing an annual statement, not to the holding company or group of companies. A single opinion is required for the company.

6. If a company elects to apply the minimum reserve requirements of VM-22 to contracts issued before Jan. 1, 2026, pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable, the appointed actuary shall complete the requirements of Section E of VM-22 Appendix 1 in the year the election is made.

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VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

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E. Annuity Summary – The PBR Actuarial Report shall contain an Annuity Summary of the critical elements of all sub-reports of the Annuity Report as detailed in Section 3.F. Note that VM-21 and VM-22 must be contained in separate sub-reports. In particular, this Annuity Summary shall include:

1. Materiality – The standard(s) established by the company pursuant to VM-21 Section 1.E and VM-22 Section 1.D.

2. Material Risks – A summary of the material risks within the principle-based valuation under VM-21 and VM-22 subject to close monitoring by the board, the company, the qualified actuary, or any state insurance regulators in jurisdictions in which the company is licensed. Include any summary metrics used to monitor the risk, such as the level of ITM by benefit type as of the valuation date. Also, include any significant information required to be provided to the board pursuant to VM-G, such as elements materially inconsistent with the company's overall risk assessment processes.

3. Changes in Reserve Amounts – A description of any material changes in reserve amounts from the prior year and an explanation for the changes, including the results of any supporting analysis such as an attribution analysis or waterfall chart. A table shall be attached to the summary, listing the aggregate reserve amount, reserve component amounts, and key statistics for the business valued under VM-21 and VM-22, including but not limited to the DR, SR, additional standard projection amount, alternative methodology reserve, account values, cash surrender value, and contract count. A template is provided below for reference.

	Post-Reinsurance-Ceded		Pre-Reinsurance-Ceded	
	Current Year (YYYY)	Prior Year (YYYY-1)	Current Year (YYYY)	Prior Year (YYYY-1)
Total VM-21 Reserve				
Stochastic Reserve (SR)				
- SR Amount				
- CTE 70 (best efforts)				
- CTE 70 (adjusted)				
- E Factor			N/A	N/A
Standard Projections				
- Additional Standard Projection Amount				
- Prescribed Projections Amount				
- Unbuffered Additional Standard Projection Amount				
- Unfloored CTE 70 (adjusted)				

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- Unfloored CTE 65 (adjusted)				
Alternative Methodology (AM)				
- AM Reserve				
- AM Reserve (without floor)				
- Cash Surrender Value Floor				
- Reserve Floor under AG 33				
Phase-In Components				
Amortization Approach				
R1			N/A	N/A
R2			N/A	N/A
A			N/A	N/A
B			N/A	N/A
C = R1 – R2			N/A	N/A
D				
			N/A	N/A
Summary Statistics				
- Separate Account Value				
- General Account Value				
- Total Account Value				
- Cash Surrender Value				
- Contract Count				
RBC Amount				
- CTE level used for C-3 RBC in LR027 (pre-tax)			N/A	N/A
- CTE level used for C-3 RBC under LR027 (post-tax)			N/A	N/A
- Effect of Phase-In			N/A	N/A
- Effect of Smoothing			N/A	N/A

	Post-Reinsurance-Ceded		Pre-Reinsurance-Ceded	
	Current Year (YYYY)	Prior Year (YYYY-1)	Current Year (YYYY)	Prior Year (YYYY-1)
Total VM-22 Reserve				
Modeled Reserve				
- DR Amount				
- SR Amount				
- CTE 70 (best efforts) for SR				
- CTE 70 (adjusted) for SR				
- E Factor for SR			N/A	N/A
Standard Projections				
- Additional Standard Projection Amount				
- Prescribed Projections Amount				
- Unbuffered Additional Standard Projection Amount				
- Unfloored CTE 70 (adjusted)				

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- Unfloored CTE 65 (adjusted)				
Summary Statistics				
- Separate Account Value				
- General Account Value				
- Total Account Value				
- Cash Surrender Value				
- Contract Count				

4. Changes in Methods – A description of any significant changes from the prior year in the methods used to model cash flows or other risks, or used to determine assumptions and margins, and the rationale for the changes.

6. Assets and Risk Management – A brief description of the general account asset portfolio, and the approach used to model risk management strategies, such as hedging and other derivative programs, including a description of any future hedging strategies supporting the contracts and any material changes to the hedging strategies from the prior year.

6. Consistency between Annuity Sub-Reports – A brief description of any material differences in methods, assumptions, or risk management practices between groups of contracts covered in separate Annuity sub-reports, to the extent that they are not explained by variations in product features, and the rationale for such differences.

7. Closing Section – A closing section with the signature, credentials, title, telephone number and e-mail address of the qualified actuary (or qualified actuaries) responsible for the Annuity Summary, the company name and address, and the date signed.

8. VA Supplement Part 1 – A copy of Part 1 of the VA Supplement from the annual statement blank.

9. VA Supplement Part 2 – A copy of Part 2 of the VA Supplement from the annual statement blank.

10. VM-22 Supplement Part 1 – A copy of Part 1 of the VM-22 Supplement from the annual statement blank.

11. VM-22 Supplement Part 2 – A copy of Part 2 of the VM-22 Supplement from the annual statement blank.

12. Retroactivity Election of VM-22 – For business for which a company has elected to apply the minimum reserve requirements of VM-22 pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable, the company shall also provide an explanation of key drivers of PBR changes for the inforce on a standalone basis. This reporting shall be provided for the valuation year in which VM-22 is first applied to the business and for each of the next [three] valuation years.

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Appendix 1: Disclosures and Documentation for Retroactive Election of VM-22

A. Background

A company may elect to apply the minimum reserve requirements of VM-22 to contracts issued on or after Jan. 1, 2017, that would have been subject to VM-22 if issued on or after Jan. 1, 2026, pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable. The election shall be made in accordance with this Appendix. The company shall provide notice to its domiciliary commissioner. If the election is not rejected, the company may apply VM-22 to the elected contracts.

B. Scope and Criteria

1. The election may only apply to contracts meeting the criteria outlined in VM Section II, Subsection 2.C or Subsection 3.B, issued on or after Jan. 1, 2017, and before Jan. 1, 2026.

2. The election shall be made at the policy form level and shall apply to all contracts issued under an elected policy form that meet the criteria in Paragraph B.1.

3. The election shall be made for each policy form for the valuation year in which VM-22 is first applied to the policy form and shall apply in all subsequent valuation years. The documentation supporting the election only needs to be submitted once if not rejected. Once an election is made and not rejected within 6 months of submission of the reporting outlined in Section D and Section E below, the company may not discontinue application of VM-22 to the elected policy form. A single report may be submitted for all policy forms for which the company makes an election under this Appendix.

C. Prior to making the election, the company shall provide written notice to its domiciliary commissioner before submitting the required documentation for the election of their intent. The notice shall identify the effective valuation date and policy forms for which the company intends to make the election. If the election is not rejected by the domiciliary commissioner within 6 months of submission of the reporting required by Sections D and E below, the company may apply VM-22 to the elected contracts.

D. When making the election, the company shall submit to their domestic regulator the following documentation:

1. Disclosures from the specified sections of VM-31 for the policy forms being elected:

a. Section 3.B.2, Groups of Policies and/or Contracts.

b. Section 3.B.4, Contracts.

c. Section 3.B.6, Governance.

d. Section 3.E.1, Materiality.

e. Section 3.E.2, Material Risks.

f. Section 3.E.5, Assets and Risk Management.

g. Section 3.E.6, Consistency between Annuity Sub-Reports.

h. Section 3.E.7, Closing Section.

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i. Section 3.E.10, VM-22 Supplement Part 1.

2. The reserve impact of the change in reserve from VM-A, VM-C, VM-M, and VM-V to VM-22 on both a pre- and post-reinsurance basis. The results of the impact shall be presented by the following groupings:

a. Fixed Annuities Deferred without Guaranteed Living Benefit

b. Indexed Annuities Deferred without Guaranteed Living Benefit

c. Individual Immediate and Deferred Income Annuities and Annuitizations

d. Structured Settlements

e. Pension Risk Transfer and Group Payout Annuities and Annuitizations

f. Longevity Reinsurance

g. Fixed Annuities Deferred – with Guaranteed Living Benefit

h. Indexed Annuities Deferred – with Guaranteed Living Benefit

i. Other Products not specified above

3. Attribution Analysis:

a. The company shall attribute the reserve change to all material drivers, including methods, assumptions, margins, assets, reinsurance, aggregation, and other material risks, with commentary. Any simplifications used to perform the attribution shall be described in the commentary.

b. The company should show the total reserves for all inforce regardless of issue year determined using VM-A, VM-C, VM-M, and VM-V for all policy forms following those methodologies, whether or not they are making the election to apply VM-22.

c. The company shall then show the total reserves determined using VM-A, VM-C, VM-M, and VM-V for all policy forms for which they are making the election. The company shall then perform the specified attributions, and any remaining differences in reserve, from the reserves determined using VM-22.

d. The attribution analysis shall be presented with the groupings specified in Section D.2 above.

e. The company shall specify all policy forms in Section D.3.b above, and which of those the company is making the election.

f. The company shall show this attribution analysis in the specified template.

Guidance Note: Representative cells and reasonable simplifications, including a single or limited number of scenarios, may be used if the approach, rationale, and material limitations are described in the attribution analysis.

4. Key Risk and Economic Metrics - The company shall provide information that gives context to the underlying risk profile and help assess drivers of reserve differences. Examples include, as applicable, asset/liability duration, asset yield, interest rate sensitivity, margins on key assumptions, description of the scenarios driving reserve outcomes, and the amount and

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allocation method for negative IMR for each of the groupings specified in Section D.2 above. They may provide a narrative as well as quantification as appropriate.

5. Sensitivity Testing - For each grouping specified in Section D.2 above for which margins were established:

   a. List the specific sensitivity tests performed for each risk factor or combination of risk factors.

   b. Indicate whether the reserve was calculated based on the anticipated experience assumptions or prudent estimate assumptions for all other risk factors while performing the tests.

   c. Provide the numerical results of the sensitivity tests.

   d. Explain how the results of sensitivity tests were used or considered in developing assumptions.

E. When making the election, appointed actuary shall submit to their domestic regulator the following documentation:

1. For all policy forms for which reserves are determined under VM-A, VM-C, VM-M, and VM-V that would otherwise be subject to VM-22 but for which the company does not elect to apply VM-22, the appointed actuary shall perform an asset adequacy analysis of the assets supporting such business consistent with VM-30. This analysis shall be performed once in connection with the company's election and submitted as part of the documentation required by this Appendix.

2. For each reinsurance transaction applicable to elected policy forms and subject to Actuarial Guideline LV, disclose pre- and post-VM-22 reserves on pre- and post-reinsurance-ceded bases and explain material transaction effects.

3. Documentation shall include company name, effective valuation date, elected policy forms, a statement of certification of the requirements in Section E above, and the appointed actuary's name, signature, contact information, and signature date.

F. For any election that is disapproved of by the domestic regulator, the domestic regulator shall specify which of the required documentation was insufficient and the rationale behind the disapproval. The company may resubmit for a subsequent election remedying the concern without additional notification. If the election is not rejected by the domiciliary commissioner within 3 months of submission of the remedied reporting required in Section D and Section E, the company may apply VM-22 to the elected contracts.

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Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force

Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Ben Slutsker, Acting Deputy Commissioner of Insurance, Minnesota Department of Commerce

   VM-22 Inforce Application

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   January 1, 2027, NAIC Valuation Manual

   VM Section II Subsections 2.E, 2.F, and 3.B; VM-01; VM-22 Section 2.B and Appendix 1; VM-31 Section 3.E.12

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See following pages

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   To permit retrospective VM-22 adoption for contracts issued between 1/1/2017 and 1/1/2026.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
11/10/26	A.F.	11/13/26	
Notes: APF 2026-11			

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II. Reserve Requirements

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Subsection 2: Annuity Products

A. This subsection establishes reserve requirements for all contracts classified as annuity contracts as defined in SSAP No. 50 in the AP&P Manual.

B. Minimum reserve requirements for variable annuity (VA) contracts and similar business, specified in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, shall be those provided by VM-21. The minimum reserve requirements of VM-21 are considered PBR requirements for purposes of the *Valuation Manual,* and therefore are subject to VM-G.

C. Minimum reserve requirements for non-variable annuity contracts issued prior to 1/1/2026 are those requirements as found in VM-A, VM-C, and VM-V as applicable, with the exception of the minimum requirements for the valuation interest rate for single premium immediate annuity contracts, and other similar contracts, issued after Dec. 31, 2017, including those fixed payout annuities emanating from host contracts issued on or after Jan. 1, 2017, and on or before Dec. 31, 2017. The maximum valuation interest rate requirements for those contracts and fixed payout annuities are defined in VM-V, Statutory Maximum Valuation Interest Rates for Formulaic Reserves.

D. Minimum reserve requirements for non-variable annuity contracts issued on 1/1/2026 and later are those requirements as found in VM-22, with the exception of Preneed Annuities, Guaranteed Investment Contracts, Synthetic Guaranteed Investment Contracts, Funding Agreements, and other Stable Value Contracts which shall follow the requirements found in VM-A, VM-C, and VM-V. Minimum reserve requirements for fixed payout annuities resulting from the exercise of settlement options or annuitizations of host contracts, as well as fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts with guaranteed living benefits once the contract funds are exhausted, are those requirements as found in VM-22, with the exception that, with the permission of the domiciliary commissioner, the company may use the same maximum valuation interest rate used to value payment streams in accordance with the guidance applicable to the host contract. The minimum reserve requirements of VM-22 are considered PBR requirements for purposes of the *Valuation Manual,* and therefore are applicable to VM-G.

E. VA contracts in payout phase administered as fixed payout contracts can be reserved for under VM-21 with domiciliary commissioner notification, if not rejected by the domiciliary commissioner.

F. At the option of the company, a company may make a one-time election prior to [1/1/2032] to apply the requirements of VM-22 to one or more groups of non-variable annuity contracts or certificates that possess the following characteristics:

1. Were issued or assumed on or after 1/1/2017 and prior to 1/1/2026

2. Would have otherwise been valued under VM-22 requirements if such contracts or certificates were issued on or after 1/1/2029 instead of the actual issue date

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The election may be made only once by a company and shall be irrevocable. No such elections may be made on or after [1/1/2032]. The election to retrospectively apply VM-22 to group of contracts or certificates shall be irrevocable. The company shall continue to apply the requirements of VM-22 to such block for all future valuation dates.

The company shall provide notice of the election to its domiciliary commissioner, along with reporting disclosures required in VM-22, Appendix 1. If the election is not rejected by the domiciliary commissioner within [9] months of submission, the company may apply VM-22 to the elected contracts.

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Subsection 3: Deposit-Type Contracts

A. This subsection establishes reserve requirements for all contracts classified as deposit-type contracts defined in SSAP No. 50 in the AP&P Manual.

Minimum reserve requirements for deposit-type contracts are those requirements as found in VM-A, VM-C, VM-V, and VM-22, as applicable. Optional election of VM-22 for contracts or certificates issued on or after 1/1/2017 and prior to 1/1/2026 is permitted in accordance with the requirements and time periods specified in VM Section II, Subsection 2.F.

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- VM-01: Definitions for Terms in Requirements The term "VM-22 Eligible Retrospective Block" means a block of business satisfying the requirements of VM-22, Appendix 1.A.2. A company may have more than one VM-22 Eligible Retrospective Block, pursuant to VM-22, Appendix 1.C.6.

- The term "VM-22 Retrospective Adoption Date" means the valuation date in calendar year [2028, 2029, 2030, or 2031] on which the company first applies the election provided by VM-22, Appendix 1.

- The term "VM-22 Retrospectively Adopted Block" means an VM-22 Eligible Retrospective Block that the company elects to value under VM-22 pursuant to VM-22, Appendix 1.

- The term "VM-22 Pre-Adoption Reserve" means the minimum statutory reserve that would be held for an VM-22 Eligible Retrospective Block on the VM-22 Retrospective Adoption Date in the absence of the election provided by VM-22, Appendix 1, determined pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V.

- The term "Existing VM-22 Business" means contracts, certificates, or contract features already valued under VM-22 immediately prior to the VM-22 Retrospective Adoption Date.

- The term "VM-22 Reserve" means the final reserve as described in VM-22 Section 3.A and includes any required reserve strengthening driven by the Additional Standard Projection Amount (ASPA), reflecting applicable support, as described in VM-22 Section 3.C. If the company uses the Deterministic Reserve (DR), the company shall provide the associated documentation for passing the Single Scenario Tests.

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V. Valuation Manual Minimum Standards

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VM-22: Requirements for Principle-Based Reserves For Non-Variable Annuities

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Section 2: Scope and Effective Date

A. Scope

Applicable non-variable annuity contracts specified in VM Section II, Subsection 2 "Annuity Products", Paragraphs C and D and "Deposit-Type Contracts" not otherwise excluded by VM Section II, Subsection 2.C are subject to VM-22 requirements.

B. Effective Date & *Transition*

Effective Date

These requirements apply for valuation dates on or after January 1, 2026.

For contracts issued on or after Jan. 1, 2017, and before Jan. 1, 2026, for which a company elects to apply VM-22 pursuant to VM Section II, Subsection 2.F or Subsection 3.B prior to [1/1/2032], as applicable, these requirements apply beginning on the valuation date specified in the election made in accordance with VM-22 Appendix 1.

Transition

A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V for business otherwise subject to VM-22 PBR requirements and issued during the first three years following the effective date of VM-22. If a company during the three-year transition period elects to apply VM-22 PBR to a block of such business, then a company must continue to apply the requirements of VM-22 for future valuations of this business. Irrespective of the transition date, a company shall apply VM-22 PBR requirements to all applicable blocks of business on a prospective basis starting three years after the effective date. Note this transition does not apply to contracts written after 12/31/2016 and prior to 1/1/2017, for which timing requirements are outlined in Section II Subsection 3.F of the Valuation Manual.

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Appendix 1: Disclosures and Documentation for Retroactive Election of VM-22

A. Background

Pursuant to VM Section II, Subsection 2.F or Subsection 3.B, a company may elect to apply the minimum reserve requirements of VM-22 to contracts issued on or after Jan. 1, 2017 and prior to Jan 1, 2026, that would have been subject to VM-22 if issued on or after Jan. 1, 2026, pursuant to VM Section II, Subsection 2.C or Subsection 3.B, as applicable. The company shall provide notice to its domiciliary commissioner of making such an election, along with the disclosure requirements detailed in this appendix.

B. Initial Evaluation and Reserve Impact Analysis

1. The company shall provide an analysis sufficient to demonstrate the impact of transitioning each VM-22 Retrospectively Adopted Block from the VM-22 Pre-Adoption Reserve methodology to VM-22. The analysis shall reflect the requirements across the entirety of VM-22, Appendix 1.

2. For each VM-22 Retrospectively Adopted Block, the company shall determine, as of the VM-22 Retrospective Adoption Date:

    a. The VM-22 Pre-Adoption Reserve on a standalone basis;
    b. The VM-22 reserve on a standalone basis before aggregation with Existing VM-22 Business or other VM-22 Retrospectively Adopted Blocks;
    c. The benefit of aggregation as described in VM-22 Section 6.A.1.a;
    d. The VM-22 reserve after application of the aggregation permitted by VM-22 Section 3.F; and
    e. Where applicable, each amount in Subsections a through d above on both a pre-reinsurance-ceded and post-reinsurance-ceded basis.

3. For each VM-22 Eligible Retrospective Block that the company does not propose to retrospectively adopt, the company shall determine the VM-22 Pre-Adoption Reserve and a standalone VM-22 reserve as of the VM-22 Retrospective Adoption Date, unless the company provides a reasonable rationale for not performing the calculation. The rationale shall describe why the calculation would not provide meaningful information or would impose effort disproportionate to the relevance of the block to the company's retrospective adoption decision. Such rationale may consider, among other matters, the size, materiality, and/or closed-block status of the business.

4. For each VM-22 Retrospectively Adopted Block, the company shall provide an attribution analysis that reconciles the VM-22 Pre-Adoption Reserve to the VM-22 reserve and identifies and explains all material drivers of the difference. The attribution analysis shall, at minimum, include:

    a. Differences in reserve methodology;
    b. Starting asset selection and asset allocation;
    c. Asset yield and reinvestment assumptions;
    d. Policyholder or contract holder behavior assumptions;
    e. Mortality or longevity assumptions;
    f. Expense assumptions;
    g. Assumption margins;
    h. Reinsurance;

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i. Treatment and allocation of IMR or PIMR, including any negative IMR amount, as applicable;
j. Aggregation; and
k. Other material drivers.

5. The level of granularity used in the attribution analysis shall be sufficient to identify and explain the material drivers of the reserve change without requiring immaterial analyses that do not provide meaningful additional information.

6. The company shall provide key risk and economic metrics sufficient to place the reserve impact in the context of the underlying risk profile of the business. Such metrics shall include, as applicable:
   a. Asset and liability duration;
   b. Asset yield;
   c. Interest rate sensitivity;
   d. Sensitivity to other material assumptions;
   e. The level and impact of margins;
   f. A description of the economic scenarios materially contributing to the reserve result; and
   g. Any other metrics used by the company to evaluate the principal drivers of the reserve change.

7. Where the difference between the VM-22 Pre-Adoption Reserve and the VM-22 reserve, or an individual driver of such difference, is material, the company shall perform sensitivity testing sufficient to distinguish the extent to which the difference results from:

   a. Changes in underlying economic conditions or economic assumptions;
   b. Differences in insurance assumptions; and
   c. Differences in reserve methodology.

8. The company shall provide a narrative describing the anticipated impact of retrospective adoption on the company's asset adequacy analysis or other cash-flow testing applicable to the business. This narrative should include, where applicable, impacts on AG-53 and/or AG-55 analyses.

Guidance Note: *The VM-22 Pre-Adoption Reserve and VM-22 reserve comparisons required by this Section are intended to be performed as of the same valuation date so that the effect of the change in reserve framework can be distinguished from changes arising solely from the passage of time or changes in economic conditions.*

C. Aggregation Analysis

1. All analyses under this Subsection shall reflect the aggregation requirements and limitations of VM-22 Section 3.F, including the applicable Reserving Categories, model segments, and requirements governing aggregation of the Payout Annuity Reserving Category and Accumulation Reserving Category.

2. For each VM-22 Retrospectively Adopted Block, the company shall separately calculate the impact of aggregating that block with Existing VM-22 Business, without including other VM-22 Retrospectively Adopted Blocks in the calculation.

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3. The company shall calculate the aggregate reserve after combining all VM-22 Retrospectively Adopted Blocks with Existing VM-22 Business and shall quantify the resulting aggregation impact.

4. The company shall calculate the reserve assuming all VM-22 Eligible Retrospective Blocks are valued under VM-22 and aggregated with Existing VM-22 Business to the extent permitted under VM-22 Section 3.F, whether or not all such blocks are proposed for retrospective adoption. A company may omit one or more VM-22 Eligible Retrospective Blocks from this calculation if the company provides the rationale described in VM-22, Appendix 1.B.3.

5. If aggregation occurs across the accumulation and payout reserving categories, the company shall provide commentary on any impact, or lack thereof, on the aggregation benefit that is due to the cash surrender value floor.

6. The company shall explain material differences among:
    a. The sum of the standalone VM-22 reserves for the VM-22 Retrospectively Adopted Blocks;
    b. The results of adding each VM-22 Retrospectively Adopted Block individually to Existing VM-22 Business;
    c. The result of aggregating all VM-22 Retrospectively Adopted Blocks with Existing VM-22 Business; and
    d. The result of applying VM-22 to all VM-22 Eligible Retrospective Blocks.

7. The company shall provide descriptive information explaining its decision to retrospectively adopt or not retrospectively adopt each VM-22 Eligible Retrospective Block, including an explanation of any material reserve decrease arising from the blocks selected for retrospective adoption.

D. Starting Assets and Asset Allocation

1. For each VM-22 Retrospectively Adopted Block, the company shall provide a reconciliation of the assets supporting the block immediately prior to the VM-22 Retrospective Adoption Date to the starting assets used in determining the VM-22 reserve.

2. The company shall describe the methodology and rationale used to allocate assets among the below groups. This shall include identification of any asset segments within a portfolio that are not proportionately allocated across all liabilities supported by the portfolio.
    a. VM-22 Retrospectively Adopted Blocks;
    b. Existing VM-22 Business; and
    c. Business not valued under VM-22.

3. The company shall demonstrate that the asset allocation used for purposes of VM-22 is consistent with the company's actual asset management practices and, where applicable, with the asset allocation used in the setting of non-guaranteed elements.

4. The company shall demonstrate that assets supporting VM-22 Retrospectively Adopted Blocks have not been counted simultaneously as supporting other business for purposes of a principle-based

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valuation or other reserve analysis.

5. The company shall provide descriptive statistics regarding the economic risk position of the assets allocated to VM-22 Retrospectively Adopted Blocks and, where material, the residual general account following such allocation. Such information shall include, as applicable:
    a. Effective duration;
    b. Interest rate risk metrics;
    c. Market value and book value;
    d. Asset yield;
    e. Market value by issue year or weighted average life;
    f. Implied net spread or other measure of asset yield relative to the cost of funds; and
    g. The allocation of IMR or PIMR, including any negative IMR amount, as applicable.

6. The company shall provide an analysis of movements in assets allocated to the VM-22 Retrospectively Adopted Blocks in connection with the election. Material movements beyond routine acquisition and disposition activity shall be identified and explained.

7. The company shall perform sensitivity testing using one or more reasonable alternative starting asset allocations, such as a pro rata allocation of the relevant general account assets or an appropriate benchmark starting portfolio, if such testing is necessary to demonstrate that the starting asset selection does not materially or inappropriately influence the VM-22 reserve.

8. To the extent applicable, the company shall provide descriptive information regarding the assets selected for and excluded from the VM-22 calculation using asset classifications or other information consistent with Actuarial Guideline LIII, including Net Market Spread and Guideline Excess Spread where available. The company shall describe the basis for including or excluding material asset classes and the manner in which material complex assets are valued and modeled.

E. Reinsurance

1. All requirements of VM-22 Section 5 shall apply to VM-22 Retrospectively Adopted Blocks.

2. The company shall identify all material reinsurance agreements applicable to each VM-22 Retrospectively Adopted Block and shall describe the impact of retrospective adoption on the treatment of such agreements under VM-22.

3. The company shall identify any existing reinsurance agreement for which collateral requirements or collateral levels are expected to be materially affected by the retrospective adoption of VM-22, with particular identification of arrangements subject to Actuarial Guideline LV.

4. For any agreement identified pursuant to VM-22, Appendix 1.E.3, the company shall describe:
    a. The nature of the expected change in collateral requirements;
    b. The relationship of the change to the change in statutory reserves; and
    c. Any material effect on the pre-reinsurance-ceded or post-reinsurance-ceded reserve results.

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5. The reserve impact and attribution analyses required by this Section shall separately identify material effects arising from reinsurance.

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VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

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Detail Eliminated To Conserve Space

Section 3: PBR Actuarial Report Requirements

E. Annuity Summary – The PBR Actuarial Report shall contain an Annuity Summary of the critical elements of all sub-reports of the Annuity Report as detailed in Section 3.F. Note that VM-21 and VM-22 must be contained in separate sub-reports. In particular, this Annuity Summary shall include:

1. Materiality – The standard(s) established by the company pursuant to VM-21 Section 1.E and VM-22 Section 1.D.

2. Material Risks – A summary of the material risks within the principle-based valuation under VM-21 and VM-22 subject to close monitoring by the board, the company, the qualified actuary, or any state insurance regulators in jurisdictions in which the company is licensed. Include any summary metrics used to monitor the risk, such as the level of ITM by benefit type as of the valuation date. Also, include any significant information required to be provided to the board pursuant to VM-G, such as elements materially inconsistent with the company's overall risk assessment processes.

3. Changes in Reserve Amounts – A description of any material changes in reserve amounts from the prior year and an explanation for the changes, including the results of any supporting analysis such as an attribution analysis or waterfall chart. A table shall be attached to the summary, listing the aggregate reserve amount, reserve component amounts, and key statistics for the business valued under VM-21 and VM-22, including but not limited to the DR, SR, additional standard projection amount, alternative methodology reserve, account values, cash surrender value, and contract count. A template is provided below for reference.

	Post-Reinsurance-Ceded		Pre-Reinsurance-Ceded	
	Current Year (YYYY)	Prior Year (YYYY-1)	Current Year (YYYY)	Prior Year (YYYY-1)
Total VM-21 Reserve				
Stochastic Reserve (SR)				
- SR Amount				
- CTE 70 (best efforts)				
- CTE 70 (adjusted)				
- E Factor			N/A	N/A
Standard Projections				

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- Additional Standard Projection Amount				
- Prescribed Projections Amount				
- Unbuffered Additional Standard Projection Amount				
- Unfloored CTE 70 (adjusted)				
- Unfloored CTE 65 (adjusted)				
Alternative Methodology (AM)				
- AM Reserve				
- AM Reserve (without floor)				
- Cash Surrender Value Floor				
- Reserve Floor under AG 33				
Phase-In Components				
Amortization Approach				
R1			N/A	N/A
R2			N/A	N/A
A			N/A	N/A
B			N/A	N/A
C = R1 – R2			N/A	N/A
D				
			N/A	N/A
Summary Statistics				
- Separate Account Value				
- General Account Value				
- Total Account Value				
- Cash Surrender Value				
- Contract Count				
RBC Amount				
- CTE level used for C-3 RBC in LR027 (pre-tax)			N/A	N/A
- CTE level used for C-3 RBC under LR027 (post-tax)			N/A	N/A
- Effect of Phase-In			N/A	N/A
- Effect of Smoothing			N/A	N/A

	Post-Reinsurance-Ceded		Pre-Reinsurance-Ceded	
	Current Year (YYYY)	Prior Year (YYYY-1)	Current Year (YYYY)	Prior Year (YYYY-1)
Total VM-22 Reserve				
Modeled Reserve				
- DR Amount				
- SR Amount				
- CTE 70 (best efforts) for SR				
- CTE 70 (adjusted) for SR				
- E Factor for SR			N/A	N/A
Standard Projections				

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- Additional Standard Projection Amount				
- Prescribed Projections Amount				
- Unbuffered Additional Standard Projection Amount				
- Unfloored CTE 70 (adjusted)				
- Unfloored CTE 65 (adjusted)				
Summary Statistics				
- Separate Account Value				
- General Account Value				
- Total Account Value				
- Cash Surrender Value				
- Contract Count				

4. Changes in Methods – A description of any significant changes from the prior year in the methods used to model cash flows or other risks, or used to determine assumptions and margins, and the rationale for the changes.

6. Assets and Risk Management – A brief description of the general account asset portfolio, and the approach used to model risk management strategies, such as hedging and other derivative programs, including a description of any future hedging strategies supporting the contracts and any material changes to the hedging strategies from the prior year.

6. Consistency between Annuity Sub-Reports – A brief description of any material differences in methods, assumptions, or risk management practices between groups of contracts covered in separate Annuity sub-reports, to the extent that they are not explained by variations in product features, and the rationale for such differences.

7. Closing Section – A closing section with the signature, credentials, title, telephone number and e-mail address of the qualified actuary (or qualified actuaries) responsible for the Annuity Summary, the company name and address, and the date signed.

8. VA Supplement Part 1 – A copy of Part 1 of the VA Supplement from the annual statement blank.

9. VA Supplement Part 2 – A copy of Part 2 of the VA Supplement from the annual statement blank.

10. VM-22 Supplement Part 1 – A copy of Part 1 of the VM-22 Supplement from the annual statement blank.

11. VM-22 Supplement Part 2 – A copy of Part 2 of the VM-22 Supplement from the annual statement blank.

12. Retroactivity Election of VM-22 – For business for which a company has elected to apply the minimum reserve requirements of VM-22 pursuant to VM Section II, Subsection 2.F or Subsection 3.B, as applicable, the company shall also provide the following:

    a. For the valuation year in which the election is implemented, the PBR Actuarial Report required by VM-31 shall identify each VM-22 Retrospectively Adopted Block and shall include, or clearly reference, the material results of the analyses required by VM-22, Appendix 1, including:

        a. Reserve comparisons;
        b. Attribution analysis;

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c. Aggregation analysis;
d. Key risk and economic metrics;
e. Sensitivity testing;
f. Starting asset and asset allocation analysis;
g. Reinsurance and collateral impacts; and
h. The anticipated impact on cash-flow testing.

b. For each of the four annual valuation dates following the VM-22 Retrospective Adoption Date, the company shall provide in the PBR Actuarial Report an analysis of the material changes in the VM- 22 reserve attributable to the VM-22 Retrospectively Adopted Blocks on a standalone basis. Such analysis shall identify and explain the principal drivers of change, including material changes in:
   a. In-force business;
   b. Economic conditions;
   c. Assumptions and margins;
   d. Methodology;
   e. Asset strategy or asset allocation;
   f. Reinsurance; and
   g. Aggregation.

c. The standalone reporting required by VM-31 Section 3.E.12.b shall be provided notwithstanding that a VM-22 Retrospectively Adopted Block is aggregated with other VM-22 business for purposes of determining the reported aggregate reserve.

d. After completion of the reporting period specified in VM-31 Section 3.E.12.b, VM-22 Retrospectively Adopted Blocks shall be subject to the same ongoing reporting requirements as other business valued under VM-22, unless otherwise required by the domiciliary commissioner.

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VM-22 Inforce Discussion Topics for LATF Session at NAIC Fall National Meeting 2026

- Regulatory Review Time – ACLI proposed a six month period for regulators to review during which an objection shall be made. Is a 6-month period appropriate or should it be longer (e.g., 9-month period)?

- End Date of Transition – Previously discussed a required end date of transitioning pre-PBR blocks to VM-22 requirements through either 2031 or 2032.
    - If an assuming party acquires a block through financial reinsurance that is under pre-PBR requirements, does the block continue under pre-PBR requirements for the assuming party or can now be valued under VM-22?
    - Given potential implementation of amendment for 1/1/2028 and the chosen regulatory review time, is 2031 or 2032 more reasonable?

- Contracts Issued Prior to 1/1/2017 – Is there interested in allowing PBR for contracts issued prior to 1/1/2017? If yes, then because no permitted practices can be granted for valuation requirements, can there be an Actuarial Guideline or should the Valuation Model be updated and adopted in individual states? Any other solutions?

- Granularity – Should the election of implementing VM-22 for inforce business be completed at the policy form level or based on more granular groups of policies?

- Disapproval Process – What does the disapproval process look like?
    - Should the VM require an explanation/rationale provided by commissioner upon disapproval?
    - How long would the company have to reapply and how long would the regulator have to re-review?
    - If disapproval occurs right before the cutoff date, does the company have any ability to re-apply within a period after the cutoff (e.g., six months)?

- VM-31 Reporting – Report for the implemented block during the year of election, as well as three or four years after election?

- VM-30 – Any requirements that need to be added specifically to section VM-30? Or is a disclosure regarding asset adequacy analysis within the PBR disclosures sufficient?

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(No Materials)

Agenda Item 9

Discuss

Comments On the

Referral to SAPWG

on Reinsurance

Collateral

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Kevin Clark, Chair, Statutory Accounting Principles (E) Working Group

FROM: Rachel Hemphill, Chair, Life Actuarial (A) Task Force

DATE: September XX, 2026

RE: Reinsurance Collateral for Ceded Business Valued under Principles-Based Reserving

During Reinsurance (E) Task Force discussions on collateral requirements for unauthorized reinsurance, an interested party (Sheldon Summers, Claire Thinking) raised a concern that current collateral requirements may not be appropriate when the business that is ceded is valued under Principle-Based Reserving (PBR).

Under PBR, the reserve credit is calculated as the difference between the pre-reinsurance reserve (calculated disregarding reinsurance cashflows) and the post-reinsurance reserve (calculated reflecting reinsurance cashflows). Because of the benefit of aggregation reflected in the pre-reinsurance reserve, the reserve credit may be less than a standalone PBR pre-reinsurance reserve for the ceded block.

We recommend that the Working Group discuss the intent of the collateral requirement, and consider the Task Force recommendations specific to each possible intent:

1. If the collateral requirement is intended to ensure there are sufficient funds for the unauthorized reinsurer to cover claims under moderately adverse conditions, the Task Force recommends that the collateral requirement for PBR business ceded to unauthorized reinsurers be updated to be based on a standalone PBR pre-reinsurance reserve calculated for the block being ceded.
2. If the collateral requirement is intended to ensure that there are sufficient funds available in the case of recapture for the cedant to post the full PBR reserve, then the Task Force recommends no update.

It is the Task Force's understanding that #1 is the most likely intent of the requirement, and that the requirement is not intended to have a collateral level that is dependent on a recapture scenario to be appropriate. However, we also encourage the Working Group to address the intent question as well. If the Working Group agrees that #1 is the intent of the requirement, then the following updates to SSAP 61, Paragraph 50 are recommended.

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Kansas City 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
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SSAP 61, Paragraph 50

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the standalone pre-reinsurance reserve calculations for the portion of the business ceded that is valued under Principle-Based reserving and equal to the reserve credit taken for ceded business not valued under Principle-Based Reserving. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or "clean" letters of credit. If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the following:

a. Standalone pre-reinsurance reserve calculations for the portion of the business ceded that is valued under Principle-Based Reserving and ~~R~~reserve credits taken for ceded business not valued under Principle-Based Reserving, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[1] ~~including any IMR liability adjustment~~; plus

b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

d. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less

e. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less

f. Amounts contractually due the assuming entity.

[1] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

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Commented [A1]: Blue highlight indicates changes from SAPWG Ref#2025-22. Revision exposed at 2026 Summer National Meeting with public comment period ending October 2. Specifically 50a:

a.Reserve credits taken, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions (2); ~~including any IMR liability adjustment~~; plus

Footnote to the added language:
(2) The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

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October 19, 2026

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

Re: Reinsurance Collateral for Ceded Business Valued under Principles-Based Reserving

Dear Chair Hemphill:

ACLI appreciates the opportunity to comment on the Life Actuarial (A) Task Force's exposure, which considers referring a question about the purpose of reinsurance collateral to the Statutory Accounting Principles (E) Working Group. We support the goal of protecting policyholders by identifying and addressing gaps in the NAIC solvency framework.

ACLI recommends keeping collateral requirements aligned with the reserve credit taken by the ceding company (the second description from the list in the exposure) and does not believe a referral to the Working Group is necessary to answer the question presented in the exposure. Once collateral is appropriate to support the reserve credit taken, the ceding company should be able to reestablish liabilities on its balance sheet in the event of the reinsurer's failure. While capital strain on recapture has recently been an industry discussion, the NAIC's Life RBC (E) Working Group is currently developing a RBC charge to address recapture risk. Additional collateral as suggested in the exposure may therefore be construed as addressing a concern other than the ceding company's exposure to counterparty risk.

The NAIC's prior work on collateral supports our position that collateral requirements exist to protect the ceding company. The U.S. Reinsurance Collateral White Paper describes its goal as "[continuing] to seek appropriate prudential methods for both reducing transactional costs while maintaining maximum solvency protection in order to benefit ceding insurers and U.S. policyholders". Collateral requirements in the Credit for Reinsurance Model Law are consistent with the White Paper; the Model Law allows ceding insurers to take reserve credit for reinsurance with unauthorized reinsurers "in the amount of funds held by or on behalf of the ceding insurer".

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The American Council of Life Insurers (ACLI) 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 94 percent of industry assets in the United States.

The Task Force's proposal could have the counterintuitive result of ceding companies reporting higher liabilities for reinsured business than for retained business. When the reinsurer has not provided the required amount of collateral, statutory accounting calls for the ceding company to establish a liability in the amount of the shortfall (line 24.02 in the Liabilities page of the Annual Statement, "Reinsurance in Unauthorized and Certified Companies"). With the changes the Task Force proposed, that liability could be greater than the ceded reserve which it replaces. It is not clear what the additional liability would represent.

In addition, requiring collateral in excess of the liabilities that the ceding company would reestablish upon recapture could create the potential for double counting when combined with the reinsurance recapture risk RBC charge that the Life RBC (E) Working Group is developing. We suggest deferring any further consideration of reinsurance collateral requirements until the recapture risk charge is finalized.

Rather than making a referral, we suggest coordinating with the Life RBC (E) Working Group as it develops the new recapture risk charge. If the Task Force continues to think a referral would be appropriate, then we would encourage the revision and re-exposure of the referral question with further explanation of the reasoning supporting its stated understanding. ACLI believes that interested parties would benefit from additional insight into this issue and would be able to provide more targeted and constructive comments. We would also suggest referring the question to the NAIC's Reinsurance (E) Task Force, since it developed the Credit for Reinsurance Model Law and it typically opines on what should or should not be reflected in reinsurance collateral requirements.

We thank the Task Force for its thoughtful approach to this issue and for the opportunity to comment.

Sincerely,



cc: Scott O'Neal, NAIC; Amy Fitzpatrick, NAIC

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October 19, 2026

Rachel Hemphill, Chair
Craig Chupp, Vice Chair
Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: Reinsurance Collateral for Business Valued under Principles-Based Reserving (SSAP No. 61, Paragraph 50)

Dear Chair Hemphill & Vice Chair Chupp:

On behalf of the American Academy of Actuaries'[1] Reinsurance Working Group (RWG), we appreciate the opportunity to provide comments to the Life Actuarial (A) Task Force (LATF) regarding the referral on reinsurance collateral for business valued under principles-based reserving (PBR), and the proposed revisions to paragraph 50 of SSAP No. 61. The RWG recognizes the importance of this issue and appreciates the Working Group's consideration of public comments as it works to respond to the referral.

The proposed change touches several NAIC groups. SAPWG owns the accounting guidance, LATF owns the reserve calculations in the Valuation Manual, and the Reinsurance (E) Task Force owns the Credit for Reinsurance Model Law (Model Law #785) and Model Regulation (Model Regulation #786), which paragraph 50 tracks. Changing the SSAP alone would risk an inconsistency between statutory accounting and the credit-for-reinsurance law, and a measure that depends on a PBR calculation should be coupled with a definition of the calculation itself.

RWG considers RBC implications as separate from this referral and they are not discussed in this letter.

We have the following comments:

Comment 1—Identification of the Problem
Credit for reinsurance lets a cedent reduce its reserves for liabilities it has ceded. That benefit is only as good as the reinsurer's ability to pay. A state regulator's ability to examine or regulate an unlicensed reinsurer may be limited, so the collateral requirement ensures that assets supporting

[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.

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the credit are available and under the cedent's control. As we understand the history, collateral was sized to the credit taken.

The RWG agrees that current collateral requirements may not be appropriate as a measurement of a cedent's potential loss on reinsurer default under PBR requirements when the reserve credit for each reinsurance agreement is an allocation of reserves the cedent has calculated on an aggregate basis. The following example is provided to illustrate this issue.

Assume a company has two blocks of policies that are valued under PBR. All of the company's other business is valued under pre-PBR rules. Reserves for Blocks A and B would be $40 million and $30 million respectively if calculated separately, but when calculated on an aggregate basis are $63 million due to offsetting risks (this is the benefit of aggregation). The allocation of the $63 million results in $36 million reserves for Block A and $27 million for Block B. If actual experience emerges similar to that assumed in the standalone calculation for Block A, then $40 million would be needed to pay claims, but we assume that under that experience only $23 million would be needed to pay claims for Block B policies. Losses in Block A would be covered by gains in Block B since the $63 million in reserves is available to pay claims for both Blocks. In this case, the calculation of reserves on an aggregate basis makes sense since gains from one Block would be available to cover losses from the other Block.

Now assume that Block A is ceded under coinsurance to Reinsurer X and Block B is ceded under coinsurance to Reinsurer Y (both are unauthorized companies and require collateral for reserve credit). The pre-reinsurance reserves would be $63 million as they would still reflect the benefit of aggregation. However, if actual experience emerges similar to that assumed in the standalone calculation for Block A, then the collateral of $36 million would be short by $4 million to cover all the Block A policy claims. In the case of Block B, only $23 million of the $27 million collateral would be needed to pay all the Block B policy claims. The problem is that the $4 million of excess collateral for Block B would belong to Reinsurer Y and would not be available to cover the $4 million loss of Block A. In this situation the pre-reinsurance reserves are calculated on an aggregate basis to reflect offsetting risks, but gains from one Block are not available to cover losses from the other Block. The ceding company is therefore exposed to $4 million of losses with respect to the reinsurance of Block A in the scenario above or, in the opposite scenario, $3 million with respect to the reinsurance of Block B, due to the collateral being less than the pre-reinsurance reserves for Blocks A and B calculated on a standalone basis.

The proposed change to SSAP 61 Paragraph 50 to calculate reserves valued under PBR on a standalone treaty basis would be one way of addressing the collateral concern.

Comment 2—Other Changes That May Be Needed for Consistency
If this change to SSAP 61 Paragraph 50 is made, LATF should consider revisions to the Valuation Manual to define the standalone calculation and to determine whether items such as application of exclusion tests to carved-out business and the segmentation of assets need to be covered. The Reinsurance Task Force should consider whether such a change will require any changes to any NAIC model laws or regulations, such as Model Law #785 and Model Regulation #786. Changing

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the SSAP alone would risk an inconsistency between statutory accounting and the credit-for-reinsurance law, and a measure that depends on a PBR calculation should be coupled with a definition of the calculation itself.

Comment 3—Other Options/Considerations

Under the proposed change to SSAP 61 Paragraph 50, under the above example, the collateral for the treaties covering Blocks A and B would need to be increased by $4 million and $3 million respectively to obtain full reserve credit. One option would be for the ceding company to instead set up a liability for the collateral shortfall, as is typically reported on line 24.02 of page 3 of the statutory Annual Statement. However, for the above example, the additional reserve could be based on the greater of the collateral shortfalls rather than the sum; i.e., it would be $4 million rather than $7 million. The rationale is that under moderately adverse conditions there would not be a shortfall for both blocks with respect to their counteracting risks.

Another consideration is that in some cases the concern may not exist. Using the above example, if only Block A was ceded, then a shortfall in the collateral would be offset by the gains of Block B, which would belong to the ceding company. The collateral concern may primarily exist when business ceded under a treaty that requires collateral for recognition of reserve credit contains risks that differ from those of business ceded to other reinsurers.

Another item that should be considered is the situation where aggregation makes the reserve higher than the stand-alone reserve

Paragraph 50 states that the liability offsets credit taken. As drafted, the net liability for an under-collateralized treaty is the standalone reserve less collateral. In situations where the standalone reserve is less than the aggregate reserve, we suggest the required collateral be the greater of the standalone and aggregate reserves on the portion of the business being reinsured. In addition, we suggest that any liability set up for a collateral shortfall should take into account offsetting risks; e.g., if collateral of 36 and 27 would have supported the Block A and Block B business, a liability for the shortfall of 4 rather than 7 may have been appropriate for the above example.

The draft also does not address how items b and c (claim recoverables, commissions and allowances) interact with the standalone figure, including possible double counting.

Other ways of addressing collateral requirements under PBR may be reasonable, and with additional time the RWG could explore them.

Other Items for the Working Group's Consideration

In addition to the specific comments above, we would ask the Working Group to consider the following implementation issues, which we believe are material to a workable outcome regardless of which approach is adopted:

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1. Effective date and transition. A change that requires a newly defined calculation should be accompanied by an explicit transition period rather than a cliff-edge effective date, so that companies and reinsurers have time to build and audit the required models.

2. Coordination with the Reinsurance (E) Task Force. Any change to the collateral base should be coordinated with Model #785/#786, and the Working Group should state whether the base for certified-reinsurer collateral percentages (Secure-1 through Vulnerable-6) changes as well, so that the framework remains internally consistent.

3. Interaction with existing frameworks. The new requirement should be reconciled with AG 48, Model #787, AG 55 and the reduced-collateral treatment available to reciprocal-jurisdiction reinsurers, so that business already subject to primary security requirements is not inadvertently captured twice.

4. Scope and grandfathering. The memo does not specify whether the charge applies to treaties already in force. We would ask for an explicit statement on scope, since retroactive application to legacy blocks priced without this change in collateral requirements would be a significant change in economics for existing treaties.

5. Ongoing governance. The standalone reserve depends on assumptions and margins that will change over time. The Working Group should specify how and when the requirement will be reviewed so that it does not become stale.

The RWG appreciates the opportunity to share these comments and is available for continued conversation with SAPWG and other stakeholders. If you have any questions or would like to discuss these comments further, please contact Marie Fabienne Amisial, the Academy's policy project manager, life (amisial@actuary.org).

Sincerely,

Jeremy Starr, MAAA, FSA
Chairperson, Reinsurance Working Group
Risk Management and Financial Reporting Council

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Agenda Item 10

Receive an

Update on AG 53

Reports

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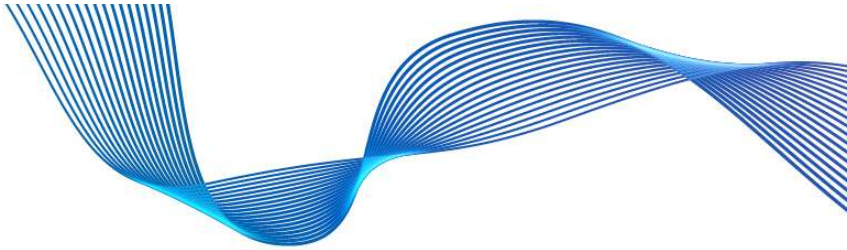
Update on Actuarial Guideline 53 reviews

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Area of focus – Level 3 Assets

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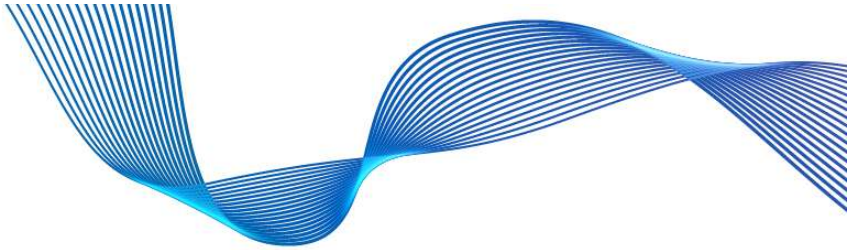
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Level 3 assets - overview

- Fair value is measured using unobservable inputs
- AG 53: Internal valuation of assets
  - When market-based value of asset cannot be obtained
  - Section 4.C. of AG 53
- For this purpose:
  - Can include level 2 assets that are sourced from an asset manager or internally derived

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Level 3 assets –
Issues to pursue better understanding

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1) Value of asset in stress scenario

a) How is reasonable accuracy ensured?

b) Is cash-flow testing (CFT) modeling too simple in this area?

c) Are key risks appropriately considered?

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2) What stress scenario looks like

a) May be combination of mass lapse, interest rate movements, and other factors

b) Other factors may include non-interest rate related valuation change
   - Mismatch with annuity market value adjustment?
     - Asset values don't move with liability values?
   - Extensions on maturities, PIK, own company credit deterioration

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3) Reserve / CFT impact considerations

a) Demonstrate ability to withstand a significant liquidity shock without relying on sale of level 3 assets?

b) If not, should a reserve increase be expected
   - Would lead to more liquid assets being required to support liabilities

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4) Modeling of asset features that could impact cash flows

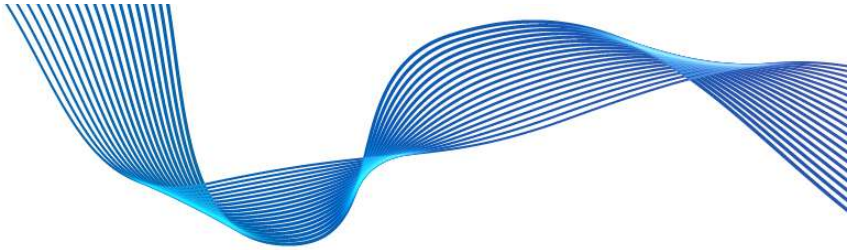
a) Impacting timing and amounts:
   - PIK
   - Credit-related maturity extensions
   - Amendments, restructurings
   - Covenant modifications

b) How are these features modeled in CFT?

c) What's the prevalence?

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5) Modeling of early indicators of future asset underperformance

a) How to address in CFT before "known impairment"?
b) Credit downgrade risks
c) Weakness in asset structure
d) Soft credit deterioration
   - e.g., borrowers paying late, loan modifications
e) Rising interest rates
   - Tougher for floating rate counterparties to cover coupon payments

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6) Reporting accuracy: level 3 and less than fully "liquid" assets

a) Reasons for differences between asset amounts reported in statement as level 3 vs. reported in AG 53 as internally valued?

b) Handling of range of values for an asset?

c) Various levels of "liquid" (highly liquid, liquid, marketable) treated the same in CFT?

- Black and white treatment in CFT: illiquid, "fully" liquid?
- Higher risk / more uncertainty with lower liquidity tiers?
- Likelihood of receiving full value during stress event for lower liquidity tiers?

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7) Importance of initial valuation

a) Drives OTTI

b) Overstated asset values mean overstated surplus, overstated RBC ratio
   - Leads to overstated shareholder dividend justification before the risk plays out

c) Overvaluation may indirectly lead to optimistic net yield assumptions in CFT?

d) How is conflict of interest handled?
   - Especially when asset side is driver of company
   - Are asset acquisitions appropriate for supporting the liabilities & on market terms?

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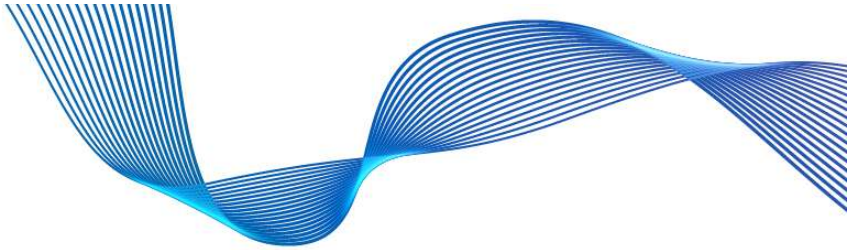
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8) Bermuda standards – any lessons for projections?

a) Mass shock lapse
b) Can't assume sale of illiquid assets?
c) Cover 105% of 3 month run on the bank?
d) Prescribed lapses, function of surrender charge
e) Private and level 3 assets excluded?

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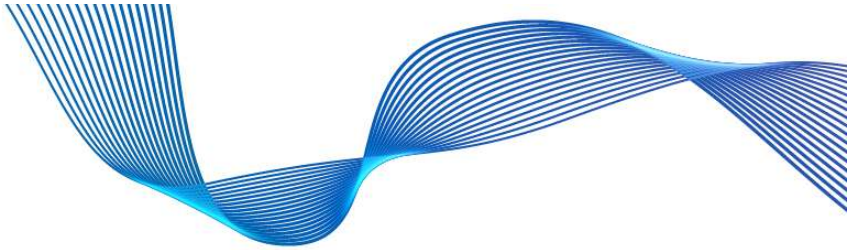
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Level 3 asset reviews – Current and upcoming steps

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Coordinated reviews

- Actuaries, investment experts, financial regulation leaders
- Inquiries of life insurers with high level 3 exposure
- Planned meetings with life insurers
  - Identify range of practices
  - Address areas where improved practices are needed
- Engagement with commissioners / NAIC leadership

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Agenda Item 11

Receive an

Update on AG

55 Reports

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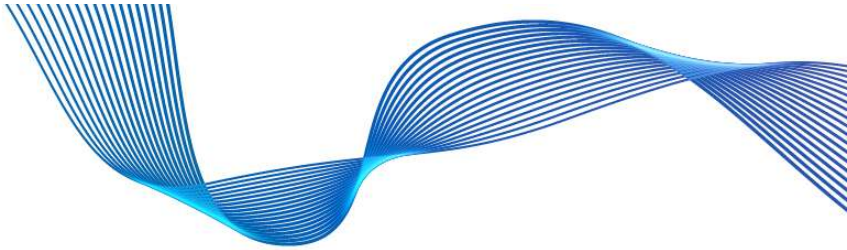
Update on Actuarial Guideline 55 reviews

Fred Andersen, Minnesota

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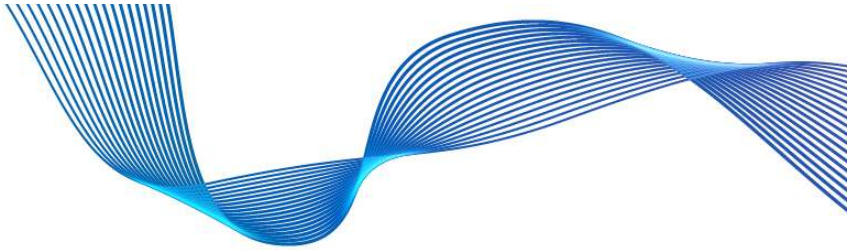


Area of focus

General observations: Non-reciprocal jurisdictions

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AG 55 Background

- Adopted last year, first filings this year
- After certain asset-intensive reinsurance:
  - Is the new reserve held adequate to cover moderately adverse conditions?
  - Is there capital held to cover beyond moderately adverse conditions?

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Review of non-reciprocal jurisdiction filings

- Analysis is ongoing
- Initial findings include 4 matters (later slide)
- After additional analysis, future findings may evolve or develop
- Slides reflect tendencies; there are some exceptions

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Review of non-reciprocal jurisdiction filings

- Based on preliminary findings:
  - E committee identified a regulatory gap and rapid expansion of potentially risky activity
    - Led to referral to Life RBC Working Group

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Non-reciprocal jurisdiction observations

- ~ 70% of life insurers within AG 55 scope ceding to non-reciprocal jurisdictions have a profile of high-yield assets supporting rich annuity guarantees
- Need to further assess their ability to pay future claims under reasonably adverse scenarios

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Non-reciprocal jurisdiction observations

- In some cases…
- The amount of reserves and capital supporting this business may fall below a reasonable standard of:
  - Newly adopted VM-22 annuity reserve standards plus
  - U.S. RBC standards
- The amount of companies entering this strategy is growing
  - As well as the size of existing companies through rapid annuity sales growth

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Non-reciprocal jurisdiction observations

- Although analysis continues, due to the increasing risk profile…
- E Committee decided to move immediately on filling that gap with its referral to the Life RBC Working Group

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Non-reciprocal jurisdiction data

- Relatively low surplus
  - In a few cases, capital & surplus is 2% to 3% of reserves
  - Some others: 4% to 5%
- Level 3 assets
  - In some cases several multiples of capital & surplus
  - Perhaps uncertainty in valuation
  - If valuations should be lower, surplus would be even lower

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Non-reciprocal jurisdiction data

- Eight sample life insurers ceding to non-reciprocal jurisdiction
- Promised MYGA cash surrender value after 10 years (with $100,000 initial premium):

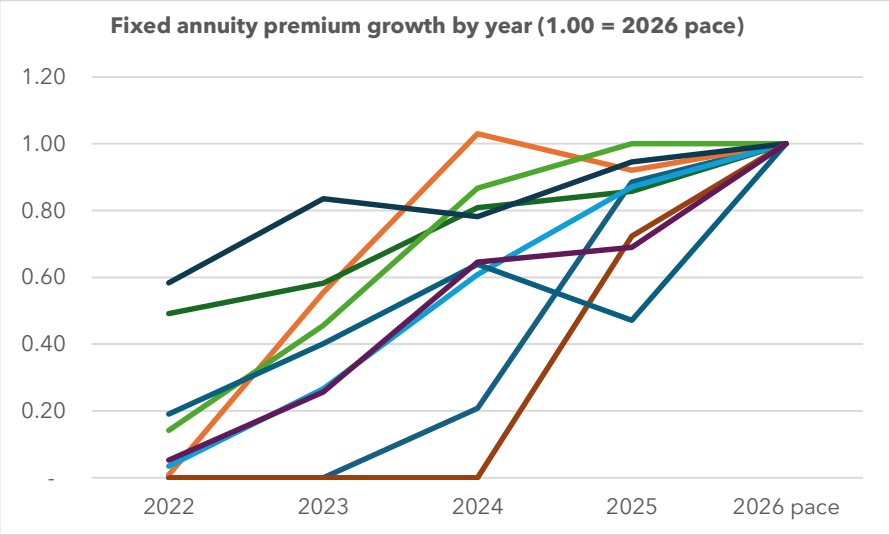
Cash surrender value, year 10	Credited rate for 10 years
$ 184,218	6.30%
183,354	6.25%
183,354	6.25%
183,354	6.25%
181,635	6.15%
178,242	5.95%
174,080	5.70%
169,202	5.40%

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Non-reciprocal jurisdiction data

- Growing annuity blocks
- Chart shows % of 2026 pace of annuity premium volume



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Non-reciprocal jurisdiction – 4 matters

1) Potential insufficiency of reserves maintained by the assuming reinsurer to satisfy claims arising under moderately adverse conditions
2) Potential insufficiency of excess capital to absorb claims under conditions more severe than those characterized as moderately adverse
3) Questions on the quality of assets supporting the applicable reserve obligations
4) Aggressive characteristics of life insurers participating in transactions involving non-reciprocal jurisdictions

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Non-reciprocal jurisdiction - tendency

- Aggressive liability profile
  - e.g., high, lengthy guarantee MYGAs
- Aggressive asset profile
  - Including level 3 assets, high-yield complex assets
  - Reliance on high returns from these assets in all scenarios
  - Potential fat-tail risk profile
- Rapid growth
- Relatively low surplus
  - Little buffer if things (especially combination of things) go wrong

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Actuarial Guideline 55 FAQ

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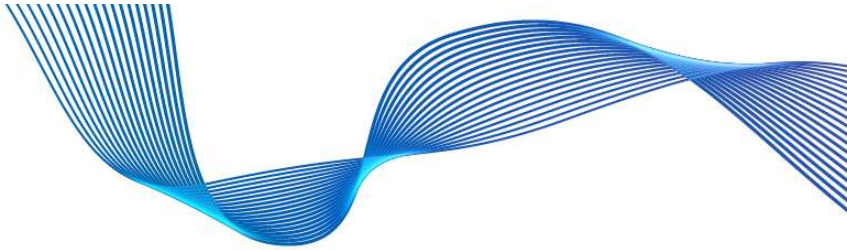
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AG 55 Guidance Document

- Adopted on October 29 LATF call
- Timing – to allow Appointed Actuaries sufficient time to perform the additional work resulting from the Guidance Document
- Reviews are still being performed
  - Additional issues are being identified

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AG 55 FAQ

- Additional issues not making it into the year-end 2026 Guidance Document
- Informal Guidance
- Additional issues – companies can discuss with regulators

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AG 55 FAQ – Long-term care

- Long-term care is asset intensive business
- The scope section's reference to Exhibits 5 and 7 were only intended to generally impact the relative size of a block to other asset-intensive business
  - e.g., we did not want a large health company's short-term health business to impact the scope calculation

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AG 55 FAQ – Mandatory run excess capital

- Concepts applying to alternative run should apply to mandatory run
- If all or nearly all assets supporting a block are assigned to the cash-flow testing starting asset amount…
  - A demonstration that excess capital is available to handle beyond moderately adverse conditions is expected

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AG 55 FAQ – Guideline Excluded Asset details

- Provide breakdown of Guideline Excluded Assets by type
  - Non-admitted assets
  - Letters of credit
  - Credit-linked notes
  - Excess of loss reinsurance
  - Parental guarantees

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AG 55 FAQ – Template Counterparty Tab

- Add applicable reserve framework
  - e.g., SBA, Modified GAAP

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Agenda Item 12

Receive an Update

on SOA Research

and Education

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Society of Actuaries Research Institute: Update to LATF

November 14, 2026

R. Dale Hall, FSA, MAAA, CFA, CERA
Managing Director, Research

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SOA Research INSTITUTE

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Individual Payout Annuity Mortality Experience Study

- Experience period: 1/1/2020–12/31/2024
- Participants: 26 individual companies, 80% of industry sales
- Study volume: 3.1M exposures count, $33.7B by exposure amount, and 143K deaths
- Average annual income per contract increased from $7.8K to $10.9K
- Mortality experience remains stable: Overall A/E ratio was consistent with the prior study
- A/E generally declines as annual income increases

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Deferred Annuity Mortality Experience Study

- Experience period: 1/1/2015–12/31/2024
- Participants: 26 companies, 50% of industry market share
- Study volume: 80M contract-years exposed, $9.3T account value exposed, and 1.4M deaths
- Elevated mortality during COVID-19: Deferred annuity mortality rates were over 15% higher during the peak pandemic years than pre-pandemic levels
- FIAs and VAs exhibited similar mortality before the pandemic, but VAs experienced significantly higher mortality from 2021–2024

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Registered Index-Linked Annuity Contract Holder Behavior Experience Study Preliminary Results

- Experience period: 1/1/2024–12/31/2025
- Participants: 15 companies, 75% of industry market share
- Study volume: 2M contracts exposed, $420B contract value exposed, and 100K surrenders
- Lower withdrawal utilization: Fewer than 15% of RILA contracts took withdrawals, compared with approximately 35% of FIA contracts and 35% of VA contracts
- Higher median withdrawal amounts: RILA owners who took withdrawals had higher median withdrawal amounts than FIA and VA owners across most ages

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Experience Studies

Project Name	Link/Expected Completion Date
2020-2024 Individual Payout Annuity Mortality Experience Study	https://www.soa.org/resources/experience-studies/2026/2020-24-individual-payout/
2015-2024 Deferred Annuity Mortality Study	https://www.soa.org/resources/experience-studies/2026/2015-24-deferred-annuity-mort/
2024-2025 Registered Index-Linked Annuity Policyholder Behavior	https://www.soa.org/resources/experience-studies/2026/2024-2025-reg-index-linked-annuity-policy/
2018-2024 Individual Life Mortality Study	11/30/2026
2009-2024 Post-Level Term Mortality and Lapse	12/15/2026

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Practice Research

Project Name	Objective	Link/Expected Completion Date
2025 Mortality Improvement Assumption Survey	Update of 2022 MI survey	https://www.soa.org/resources/research-reports/mort-improvement-survey-series/
Mortality by Socioeconomic-Demographic Analysis - Collection of Analyses	Collection of analyses of county-level mortality variations by socioeconomic and demographic characteristics that are both methodologically rigorous and practically informative	11/30/2026
Mortality by Socioeconomic Category through 2024	Update of life tables by socioeconomic decile through 2024	12/1/2026
Generating Consistent Real World and Risk Neutral Interest Rate Scenarios	Expands and develops new methodology related to interest rate scenario generators focusing on the concept of consistency	12/4/2026
Impact of AI Supported UW on Mortality Slippage - Report	Get a holistic and in-depth understanding of the industry's current approaches to AI supported underwriting and its impacts on mortality slippage	12/11/2026
Evaluating the Implementation and Industry Impact of Principle-Based Reserves-Phase 1	Evaluate the implementation and industry impact of Principle-Based Reserves	12/15/2026

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Agenda Item 13

Receive an

Update on SOA

VBT Development

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Developments for New VBT

November 13, 2026

Valuation Basic Table Working Group

of the SOA Mortality and Longevity Oversight Advisory Council

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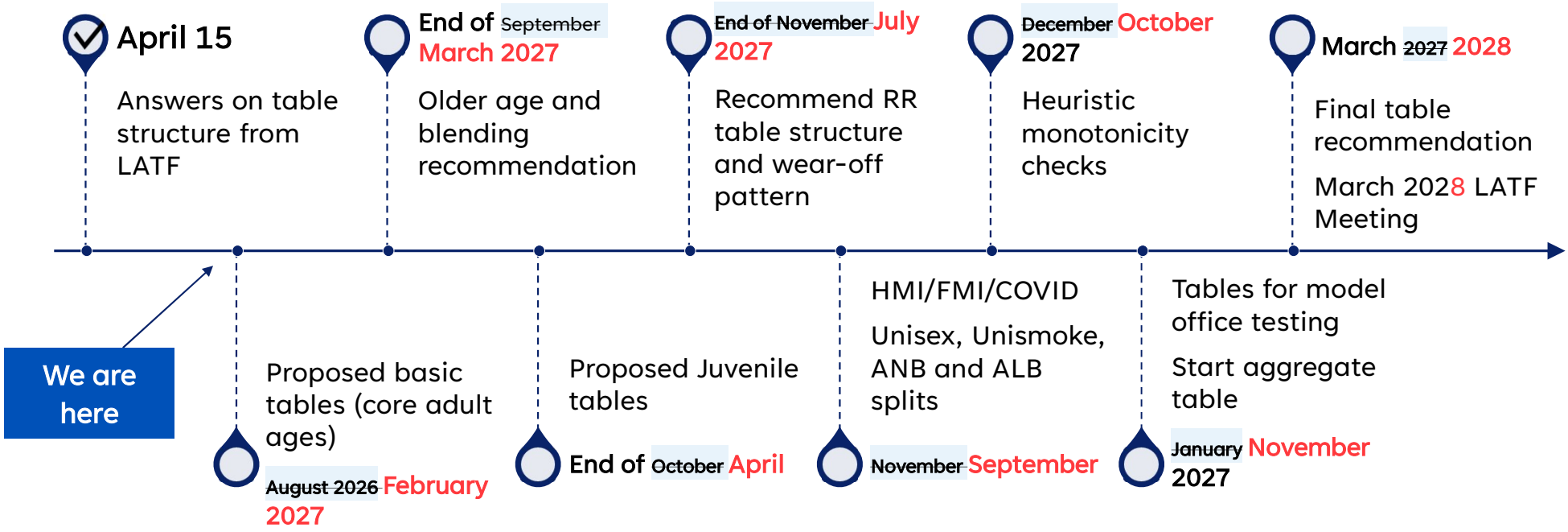
Agenda

- Model validation update
- 2023 and 2024 data sets
- Issue age limitation (80 v 90) – discussion
- Update on outstanding items
  - Face limit
  - Policy Count v Amount
- Next steps

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Original timeline no longer feasible



Projected timeline has been adjusted to reflect additional data, model validation and alignment with dependent work (e.g., HMI/FMI)his is an aggressive but achievable timeline. Working to catch up by end of year.

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New VBT Table Development Focus and Process – On step 5*

1. Go forward table focus
2. Start with most recent ILEC experience and consider adjustments
3. Juvenile and older age adjustments
4. Select vs. ultimate period
5. ANB, ALB, Unismoke, Unisex adjustments
6. RR tables (# and relativity) including preferred wear-off pattern
7. Develop table(s), perform heuristic monotonicity checks
8. Model office testing
9. Determine if margins in CSO still sufficient
10. Valuation manual amendments, if needed

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* Good progress on Step 3 but on hold until more progress on step 4 and 5

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Model Validation Update



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Model Peer Review

- Base (Champion) model:
  - Two-dimensional binomial GAM
  - Logistic link function
  - Six knots at durations 1, 3, 5, 10, 15, 20
  - Model documentation provided
- Established GitHub environment
- Two focus areas for review:
  1. Can we replicate the results?
  2. To inform feedback and/or questions on the model and model structure
- Challenger or peer review model:
  - Built from Champion model documentation
  - Built from underlying data using a 70/30 test/holdout set
  - Used R mgcv's BAM

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Findings – Replication and Structure

- Model statistically sound
- Ability to match results
- GAM model is appropriate
- Binomial family is improved over Poisson log, with dispersion close to 1
- The resulting shape is sensible and monotonically rising with duration, issue age and attained age

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Model Peer Review – Some Key Insights for Refinement

- ANB v ALB – should move all data to one basis and then create separate ANB/ALB tables
- The scaled logit link function okay but 0.55 at infinity should be reconsidered, possibly with a lower bound
- The model could benefit from three additional variables previously removed from the model
  - Face amount × duration (s(Duration, Amount))
  - Plan × issue age (s(IssAge, Plan)).
  - Underwriting class × issue age (s(IssAge, UW))
- Continue to look for opportunities to simply the modeling framework and develop a testing framework with key metrics for decisioning on model changes and simplifications
- Documentation will be very important on the model, testing, simplifications and go forward validation

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ANB v ALB

- Existing model does not delineate between ANB and ALB
- ALB may not follow standard adjustment – prefer consistency with prior periods
  - Possibility of adjusting the issue age to align with ANB and creating an ALB table afterward
- Start with a consistent methodology and determine the best approach based on the data

New Recommendation

- Shifting model to be on an ANB basis using a consistent methodology (e.g., standard adjustment formula consistent with prior VBT tables)
- Shift entire model and tables on ANB basis
- Apply historical standard adjustment factors to develop ALB distinct tables

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2023 and 2024 Datasets

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2023 and 2024 Data Sets

- 2023 data set is now available
- 2024 data set pending availability
- Original development focused on 2018-2019 data with 2023 and possibly 2024 as data holdout set for validating model

New Recommendation

- To add more data and help address certain outstanding questions, propose leveraging some of the 2023 data in the model
  - Continue to have a hold-out set from 2023 plus 2024
  - Will add more credibility to the dataset
    - Larger face amounts
    - Older ages

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Issue Age Limitations



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Issue Age Limit of 80 v 90

- Existing 2015 VBT has maximum issue age of 90
  - 2-year select period
- Limited data and exposure of issue ages above 80

Consideration

- Two options:
  1. Modify table from 2015 to reduce maximum issue age from 90 with 2-year select period to 80 with TBD select period*
  2. Maintain consistency with 2015 using extrapolation to extend issue ages from 80 to 90

* Select period revisited with the older age mortality, ultimate rates and grading to ultimate

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Update on Face Amount v Count Tables and Face Limits



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Converting Policy-weighted Tables to Amount-weighted Tables

From Summer 2026 NAIC LATF Meeting

Issue uncovered

- Odd spike in A/E causes unreasonable relationship between amount and count weighted tables
- Likely due to random volatility from sporadic claims at largest face amounts
- Results in model giving higher weights to the very high face amount observations, adding volatility to the curve smoothness

A/E of amount v policy weighted

Amt Lwr	Pol A/E Excl	Amt A/E Excl	Pol A/E Tot	Amt A/E Tot
00000	100%	99%	100%	99%
00010	114%	109%	114%	109%
00025	105%	102%	105%	102%
00050	96%	94%	96%	94%
00100	97%	95%	97%	95%
00250	100%	99%	100%	99%
00500	98%	97%	98%	97%
01000	94%	95%	95%	95%
02500	100%	99%	97%	97%
05000	100%	99%	90%	91%
10000	100%	98%	88%	90%
Total	**100%**	**97%**	**100%**	**95%**

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Converting Policy-weighted Tables to Amount-weighted Tables

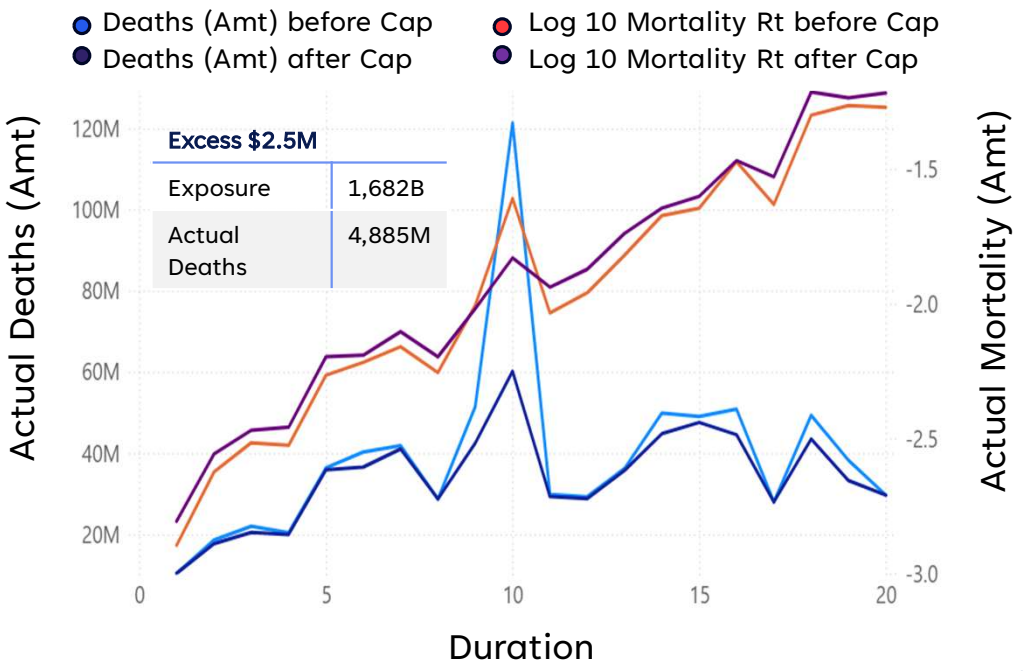
From Summer 2026 NAIC LATF Meeting

Recommendation

- Provide a cap on the face amount exposure of $X Million
  - Does not reduce # claims
  - Reduces average size of claim at largest face amounts
  - Smooths out experience by reducing weight of observations
  - Reduces volatility of model results at highest face amounts across all ages
  - Leaning towards $2.5M but will leverage 2023 test set to validate as average face amounts continue to increase

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Effect of $2.5M Cap on Deaths and Mortality Rates*



* Analysis already excludes data from higher face amount, 70+, 2005-2008

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Next Steps

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Directional Feedback Requested

Reduction in maximum issue age from 90 to 80 v. extrapolation to 90

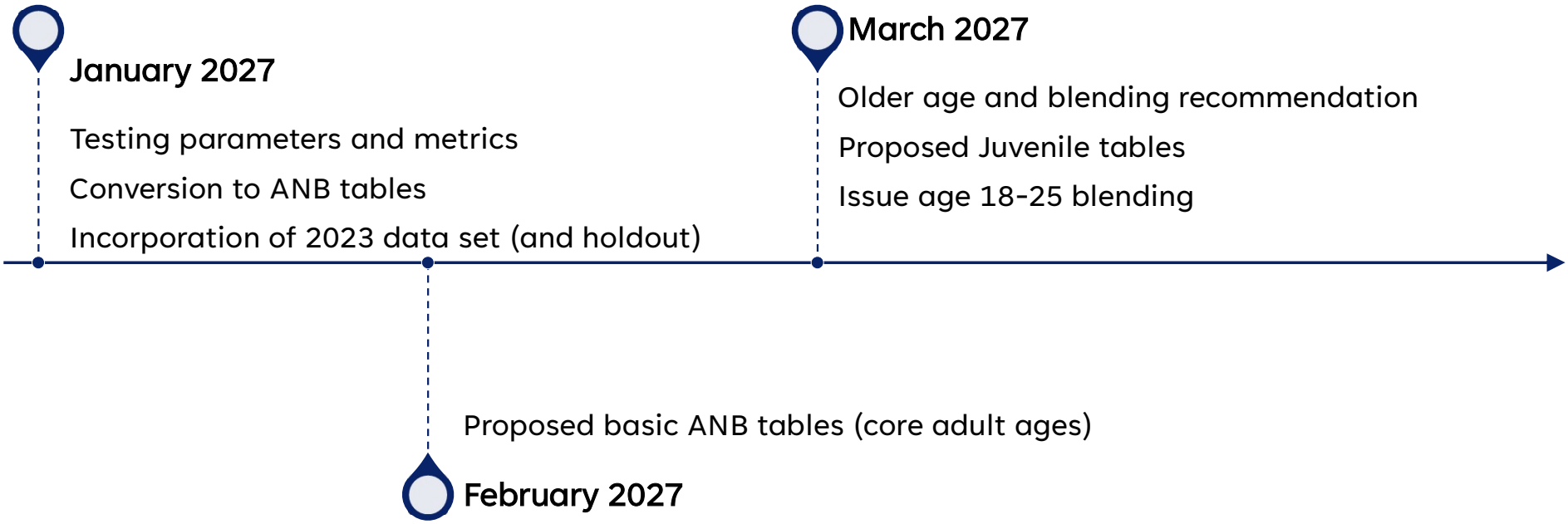
Use of 2023 data subset (with holdout) to address open items

Conversion to ANB Tables

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Between Now and Winter 2027 National Meeting



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Agenda Item 14

Hear an Update

from the American

Academy of

Actuaries

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Academy Professionalism Update

NAIC Fall National Meeting

November 2026

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Housed in the Academy: The Professionalism Framework



- **U.S. Code of Professional Conduct**
  - Joint Committee on the Code of Professional Conduct
- **U.S. Qualification Standards (USQS)**
  - Committee on Qualifications
- **Actuarial Standards of Practice (ASOPs)**
  - Actuarial Standards Board (ASB)
- **Counseling and Discipline**
  - Actuarial Board for Counseling and Discipline (ABCD)

actuary.org/professionalism

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Committee on Qualifications

The Committee on Qualifications (COQ)

- Recommends to the Academy's Board of Directors the minimum qualification standards, including continuing education requirements, necessary to qualify credentialed actuaries to issue statements of actuarial opinion in the United States.
- Answers questions relating to qualifications.
  - As of early October, the COQ received 20 questions in 2026, covering qualifications for non-US actuaries to issue SAOs, specific qualifications, CE, and documentation requirements.

The most recent U.S. Qualification Standards took effect Jan. 1, 2022.

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Actuarial Standards Board (ASB)



ACTUARIAL STANDARDS BOARD

General ASOPs—Recently Approved

- ASOP No. 41, *Actuarial Communications*

General ASOPs—Under Revision

- ASOP No. 1, *Introductory Standard of Practice*
- ASOP No. 12, *Risk Classification (for All Practice Areas)*

Learn more at: www.actuarialstandardsboard.org

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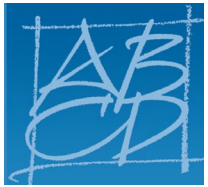
Actuarial Standards Board (ASB)

Life ASOPs under revision or development

- ASOP No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual*
- *Pricing Reinsurance or Similar Risk Transfer Transactions Involving Life Insurance, Annuities, or Long-Duration Health Benefit Plans* (new)

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Actuarial Board for Counseling and Discipline (ABCD)



Recent ABCD activities

- During the first three quarters of 2026, the ABCD handled a total of 116 cases, consisting of 85 requests for guidance (RFGs) and 31 inquiry cases.
- In addition, the ABCD conducted ten outreach presentations, both virtually and in person, for actuarial organizations, regulators, and actuarial clubs and firms across all major regions of the United States.

Up to Code in *Contingencies* magazine

- Perspectives from the ABCD—Moral Turpitude (September/October 2026)
- Don't Be 'That Actuary' (July/August 2026)
- Are You Offside? (May/June 2026)

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Upcoming Professionalism Webinar

Tales from the Dark Side

Presented by members of the ABCD

Dec. 18, 2026

Noon-1:30 p.m. EST

Register here

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Questions?

For more information, or to send suggestions/comments on the U.S. Qualification Standards, please contact

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Academy Update—Life Practice Council

Life Actuarial (A) Task Force (LATF)

Nov. 14, 2026

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Mission:
To serve the public and the U.S. actuarial profession



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Serving over 20K MAAAs & public stakeholders for 60 years



Standards:
Setting qualification, practice, and professionalism standards



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You're invited!



YOU'RE INVITED

Academy Reception & Dinner

DATE
Saturday, Nov. 14

RECEPTION
6 p.m. – 7 p.m.
Grapevine Terrace

DINNER
7 p.m. – 9 p.m.
Escondido Room 1/2/3

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Life Practice Council Priorities

- Long-Term Care Combo Paper
- Model Construction and Development of RBC C-1 CLO Factors
- VM-22 Practice Note
- Comments on Reinsurance Thresholds in the Disclosure of Material Transactions Model Act #285
- Reinsurance Recapture
- Comments to SAPWG on Reinsurance Collateral for Ceded Business Valued under Principles-Based Reserving
- Comments on Annuity Buyers Guide
- Comments on SSAP 109
- Comments on SSAP 61
- Comments on AG-55
- US GAAP Fair Value Measurement & Fair Value Option Practice Note
- 7702, Valuation Rate, and Applicable Federal Interest Calculator

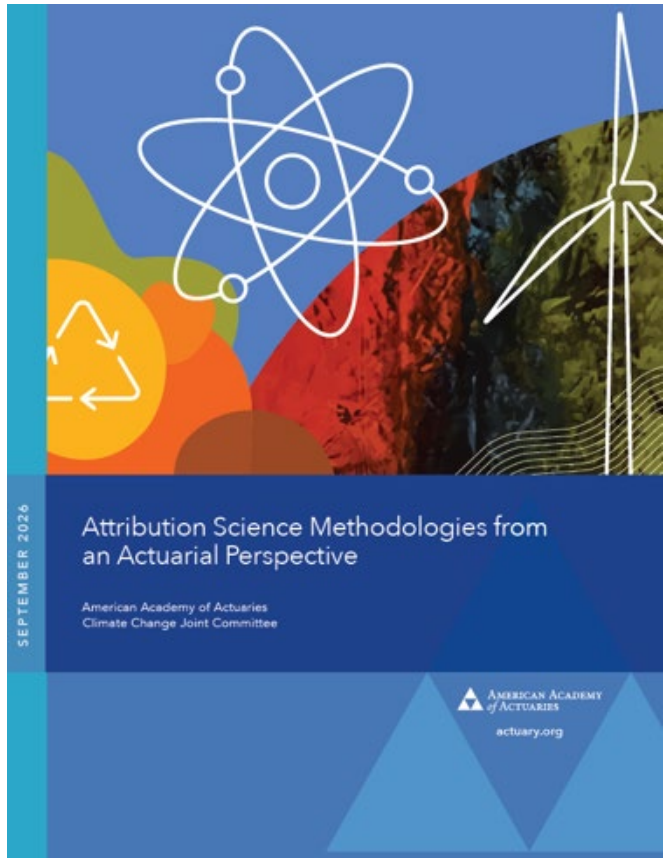


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Cross Practice Topics of Interest

- Possible Structure Exposure Comment Letter
- Committees Comment to NAIC on Residential Mitigation Grant Program Model Act
- Exploring the Concept of a Retirement Crisis in the United States
- Comments on RBC Gaps and Inconsistencies Exposure
- Attribution Science Methodologies from an Actuarial Perspective
- Climate Change Impact on Insurance Affordability, Availability, and Accessibility



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Questions?

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Upcoming Events & Webinars

- **Webinar on PBGC Premium Reform,** Nov. 23, 2026
- **Seminar on Effective P/C Loss Reserve Opinions, Nashville,** Dec. 7-8, 2026
- **PBR webinar series**
  - PBR Reserve Projection (July 2026)
  - Hedging in PBR (October 2026)
  - PBR: VM-31 as Seen by Regulators (December 2026)
- **Leadership Summit & Governance Transition,** Dec. 10, 2026
- **Tales from the Dark Side,** Dec. 18, 2026
- **Policy Summit & Hill Visits,** March 8-9, 2027

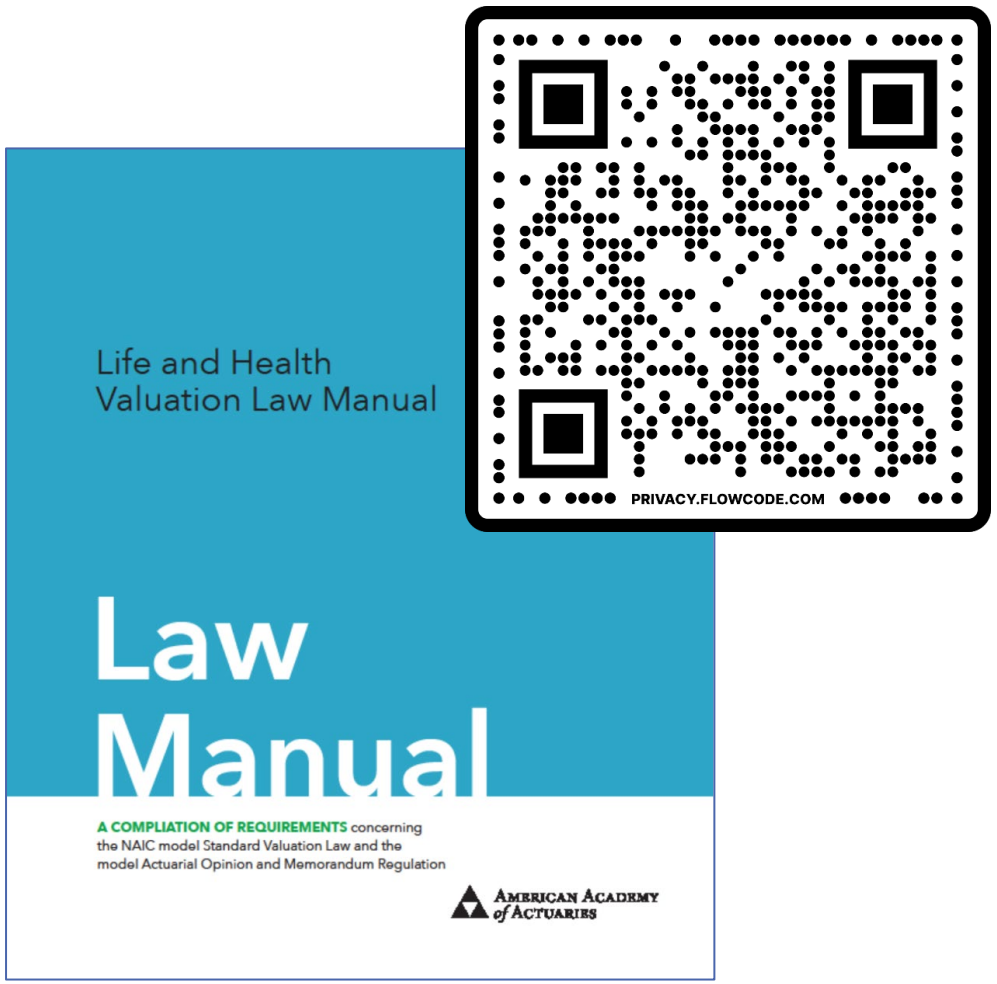
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Life and Health Valuation Law Manual

What's Inside?

- Current topics section outlining key valuation developments and specific state guidance;
- Current NAIC model laws and regulations that have an effect on reserve calculations;
- A discussion of generally distributed interpretations; and
- Current actuarial guidelines from the NAIC *Financial Examiners Handbook*.



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