



AMERICAN ACADEMY *of* ACTUARIES

To: Mike Boerner, Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

From: Alan Routhenstein, Member - Life Reserves Work Group (LRWG)

Copy: Gary Falde, Vice-Chairperson - LRWG
Dave Neve, Chairperson - LRWG

Date: December 13, 2013

Re: VM-20 Spreads as of 2013-09-30

Attached is a zip file that contains three files developed by the American Academy of Actuaries¹ LRWG, as follows:

- 1) VM-20 Spreads 2013-09-30 v04_Current Spreads.xls, which shows updated Tables
 - a. F (Current Investment Grade Spreads) and
 - b. G (Current Below Investment Grade Spreads), and
 - c. an updated Current Swap Spreads table;
- 2) VM-20 Spreads 2013-09-30 v04_Long Term Spreads.xls, which shows updated Tables
 - a. H (Long Term Investment Grade Spreads),
 - b. I (Long Term Below Investment Grade Spreads) and
 - c. J (Long Term Swap Spreads); and
- 3) VM-20 Spreads 2013-09-30 v04 using LRWG Analysis v38 vs 2009-09-30 v02.xlsx, in which:
 - There are six tabs to compare updated spreads to the 2009-09-20 spreads proposed by LRWG to LATF for inclusion in VM-20
 - a) Increase in Current Spreads
 - b) Increase in Long Term Spreads *
 - c) 2013-09-30 Current Spreads
 - d) 2013-09-30 Long Term Spreads
 - e) 2009-09-30 Current Spreads
 - f) 2009-09-30 Long Term Spreads *
 - Each tab shows averages in rows 35, where
 - o the investment grade overall average in cell D35, and
 - o the below investment grade overall average is in cell P35
 - Tabs c) and d) starting in row 37 show graphs of the investment grade and below investment grade spread tables

¹ The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

The 2013-09-30 spread tables were developed using the same smoothing, interpolation, and extrapolation algorithms that we used to prepare the 2009-09-30 spread tables. We considered raw data provided to the NAIC by Bank of America Merrill Lynch and J.P. Morgan in our development of the latest tables.

* LATF should be aware of the following with regard to the Below Investment Grade tables within item 3b (Increase in Long Term Spreads) and item 3f (2009-09-30 Long Term Spreads):

A. Due to a clerical error, the NAIC in its 2012-07-20 Exposure Draft of VM-20 published preliminary Table I (Long Term Below Investment Grade Spreads) rather than the final version proposed by LRWG to LATF.

B. The final 2009-09-30 values in Table I were lower than the preliminary values, with the difference varying by PBR Credit Rating as follows:

PBR	
<u>Credit</u>	<u>Difference</u>
<u>Rating</u>	<u>(Bps)</u>
11	19.5
12	29.3
13	33.8
14	38.3
15	42.8
16	47.1
17	51.3
18	55.6
19	59.9
20	64.1

C. Thus, if 3b were to compare 2013-09-30 Table I to the preliminary 2009-09-30 Table I, the Table I increases would be lower than those shown in 3b, with the difference varying by PBR Credit Rating as shown above.