December 1, 2021

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

Re: Amendment Proposal Form (APF) 2021-11

Dear Mr. Boerner,

On behalf of the Variable Annuity Reserves & Capital Work Group (VARCWG) of the American Academy of Actuaries,[1] I am pleased to provide comments on the proposed assumption disclosure requirements in APF 2021-11.

VARCWG believes that the proposed disclosures in VM-31 Section 3.F.13.d.ii and iii should consider unfloored conditional tail expectations (CTEs)—i.e., calculate the CTE without requiring that the scenario reserve for any scenario be no less than the cash surrender value. Quantifications before the cash surrender value floor are likely to provide a better understanding of the conservatism selected for the assumption.

It may also be possible to simplify the assumption margin analysis.

For example, one approach would be to simplify the assessment of individual risk factors in VM-31 Section 3.F.13.d.ii by using CTE 70 (adjusted) instead of CTE 70 (best efforts) and removing the CTE 98 requirement.

- Using CTE 70 (adjusted) for the assumption margin analysis is consistent with the use of CTE 70 (adjusted) to assess assumption outliers in the Standard Projection and in other disclosures.
- The CTE (adjusted) basis may make the analysis more tractable and/or less subject to estimation noise from simplifications for companies with a Clearly Defined Hedging Strategy (CDHS).

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 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.

- The analogous disclosure requirement for VM-20 reserves uses only the Deterministic Reserve even if there are stochastic reserves.
- If desired, CTE 70 (adjusted) could be added to the VM-31 Section 3.F.13.d.iii aggregate margin disclosure requirements to connect the individual margin analysis to the aggregate CTE 70 and CTE 98 margin analysis.

Another approach would also remove the CTE 98 requirement from VM-31 Section 3.F.13.d.ii but allow actuaries to use either CTE (adjusted) or CTE (best efforts) for both VM-31 Section 3.F.13.d.ii and iii and disclose their selected basis and rationale. Both measures provide insights into assumption margins, and some actuaries may determine that one is more appropriate than the other based upon the underlying facts and circumstances.

Thank you for your consideration of these comments. Please contact Academy life policy analyst Khloe Greenwood (greenwood@actuary.org) with any questions.

Sincerely,
Connie Tang, MAAA, FSA, CERA, CFA
Chairperson, VARCWG