June 8, 2023

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

Re: Optional AOM and PBR Actuarial Reporting Template for IMR

Dear Chair Hemphill:

The Life Valuation Committee of the American Academy of Actuaries[1] is pleased to provide comments on the Optional AOM and PBR Actuarial Reporting Template for IMR.

Instructions/Clarifications to Add to Template

- In the instruction tab of the template (to be developed), it may be helpful if each field included a description of the intended value and a reference to the annual statement, if applicable. It may be helpful to note the expected sign e.g., admitted disallowed negative IMR should be input as a negative value. It may also be helpful to note any expected reconciliations between the entered fields.
- The template notes that modeled reserves should be in thousands. It may be helpful to clarify whether all dollar values should be in thousands.
- For the "RBC" entry, clarify that this is the Authorized Control Level RBC.
- For column 7, we are not aware of any situation where this would ever be "Yes." Possibly this column is not needed.
- A definition of "anticipated future excess withdrawals" should be added.

Possible Additions

- We suggest a reconciliation of the total annual statement IMR and its allocations. It was unclear how the total IMR on the annual statement would be split in the individual entries. We suggest adding descriptions to the input fields or a reconciliation that shows how the individual pieces sum up to the total.
- Does there need to be any disclosure about C3 Phase 1 and C3 Phase 2?
- If a company does not use cash flow testing (e.g., gross premium valuation) where assets are not explicitly modeled, can it be clarified that simplifications can be made to reflect a negative IMR such as reducing the gross premium margin (any excess of gross premiums

[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.

over benefits and expenses) by the amount of the negative IMR? Does this need to be disclosed in the template as well?

- The IMR instructions define excess withdrawals as effective withdrawals for the year exceeding 150% of the prior two years. Although a company may experience withdrawals that exceed the 150% of the prior two years, some of those withdrawals may be anticipated and the company's investment strategy would reflect this, decreasing the likelihood for a company to sell assets at a loss. An example is expected higher withdrawals at the end of a surrender charge period for an annuity product.
- We propose allowing companies to supplement the excess withdrawals with A/E ratios of lapse rates to explain why the excess withdrawal activity did not lead to immediate recognition of interest rate related losses.

Other Questions

- If a company performs cash flow testing or the PBR exclusion tests for PBR as of 9/30, should the 9/30 IMR values be used?
- A possible VM-30 item: If a book value projection was used to evaluate reserve adequacy, was ending surplus adjusted for any remaining negative IMR (i.e., reduced surplus)? The Academy's 2017 practice note *Asset Adequacy Testing* (Question 26) addresses IMR remaining at the end of the projection (included below for reference).

> ***Q26. If products with relatively short durations are cashed out at the end of the projection period, and the IMR and AVR are being modeled, what happens to the IMR and AVR at the end of the period?***
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> *The IMR may be positive (or negative) when there are no policies left inforce that need to have interest maintained. When the IMR is included in testing, some actuaries believe it is preferable to include the value of the ending IMR in the value of ending surplus.*

The Academy Life Valuation Committee is willing to provide additional input as the template is developed. Please contact Academy life policy analyst Amanda Barry-Moilanen (barrymoilanen@actuary.org) with any questions.

Sincerely,

Life Valuation Committee, American Academy of Actuaries