



May 1, 2024

Peter Weber  
Chair, Variable Annuities Capital and Reserve (E/A) Subgroup  
National Association of Insurance Commissioners (NAIC)

Re: APF 2024-07

Dear Chair Weber,

On behalf of the Variable Annuity Reserves and Capital Subcommittee (VARCS) of the American Academy of Actuaries,<sup>1</sup> I am providing comments on the exposure draft of [APF 2024-07](#) that proposes updates to the VM-21 Standard Projection Amount (SPA) assumptions. The VARCS is generally supportive of revising SPA assumptions as relevant experience emerges as well as improving the utility of the SPA in its purpose of catching outlier assumptions. We are providing specific comments on the exposed assumptions below.

### ***Maintenance Expenses***

The VARCS is supportive of the update to maintenance expenses, as so doing creates consistency between VM-21 and VM-22. Additionally, we note that short-term inflation in recent years has been higher than the Federal Reserve's target of 2%. Accordingly, a historical inflation rate of 2.5% would seem reasonably conservative given that context.

### ***Surrenders***

After clarification by the NAIC that index-linked variable annuities (ILVAs) are in scope of VM-21, we are supportive of the addition of a new section (Section 6.C.6.f) for ILVAs.

Experience for surrenders far in-the-money has been increasing, and the conclusion is generally a downward trend in the minimum lapse rate. However, some companies may not have credible experience less than 1%, even for policies in the withdrawal phase, so the proposed assumption would be much lower than what those companies' internal experience would indicate. With the minimum lapse rate possibly being as low as 0.6% for policies with guaranteed minimum withdrawal benefits or hybrid guaranteed minimum income benefits, the change in surrender assumptions may result in the SPA being inappropriately binding for some companies given their internal experience.

We would encourage the subgroup to review industry experience to ensure that the change proposed is supported by available industry data.

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<sup>1</sup> 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 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.

***Mortality***

The VARCS reviewed the mortality assumption developed by the Society of Actuaries and found the new assumption to be reasonable. However, we note that the change in assumption structure could result in an additional implementation burden, as companies would need to make model structure changes to accommodate the new assumption.

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If you have any questions or would like to discuss further, please contact Amanda Barry-Moilanen, the Academy's life policy analyst, at [barrymoilanen@actuary.org](mailto:barrymoilanen@actuary.org).

Sincerely,

Maambo Mujala, MAAA, FSA  
Chairperson, Variable Annuity Reserves and Capital Subcommittee  
American Academy of Actuaries