February 4, 2025

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

Re: Comments on the recently exposed SPA Policyholder Behavior Assumptions Proposed Edits

Dear Chairperson Slutsker,

On behalf of the Annuity Reserves and Capital Subcommittee (Subcommittee) of the American Academy of Actuaries,[1] I appreciate the opportunity to comment on the recently exposed standard projection amount (SPA) Policyholder Behavior Assumptions Proposed Edits (Edits) and I am pleased to provide the following comments.

When, and if, a policy elects to utilize a guaranteed living benefit is a key assumption for annuities with Guaranteed Living Benefits (GLBs). Additionally, product design has a strong influence on whether exercising the GLB in early durations or attained ages is conservative or not. The Subcommittee has reviewed the Edits in Section 6.C and would like to provide comments on both the interpretation of the current draft and potential changes for guaranteed lifetime withdrawal benefit (GLWB) Utilization (6.C.4.c). The 6.C.4.c wording is as follows:

> For contracts in the Accumulation Reserving Category with a guaranteed living benefit, partial withdrawals shall be projected to commence pursuant to the **cumulative utilization rates** (emphasis added) shown in the table below. Once guaranteed living benefit withdrawals are projected to commence, the partial withdrawal amount shall be, for a lifetime guarantee, 100% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero, or for a non-lifetime guarantee, 70% of the guaranteed maximum annual withdrawal amount each year until the contract account value reaches zero.

Qualification Status	Before 65	65 to 70	71 to 75	76 and above
Qualified	16%	35%	80%	95%
Non-Qualified	16%	35%	50%	65%

[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.

Interpretation of current draft

After reviewing Section 6.C.4.c, the Subcommittee devised several potential interpretations as to how this prescribed assumption is meant to be applied. As a result of this process, the Subcommittee would like to pose the following questions:

- Should this assumption be applied at the contract level (splitting each contract into pieces that start GLBs at different ages) or at the population level (which introduces modeling complexities such as if it should be checked annually in the projection, and accounting for a principle-based reserve (PBR) projection using only new business eligible for VM-22 instead of the full block of business)?
- Is the assumption meant to be applied every policy year or only when the attained age of a policy changes into a different bucket? If it's applied every year, should it be applied based on the initial policies in force or the current policies in force?
- What is meant by the "cumulative utilization rate" and does that refer to whether this assumption is applied at the contract or population level? Or is it referring to how the assumption is applied throughout a projection at each contract level?

The Subcommittee welcomes the NAIC's comments and feedback on the above questions. Additionally, the Subcommittee created an excel file attached to this letter that lays out several different ways this assumption could be interpreted and modeled based off the current draft language. The tabs show the following possible interpretations:

1. Apply utilization at policy level. Immediate withdrawal for the portion of policy based on attained age bracket. Utilization is applied each time policy changes age brackets to the portion of the policy that has not started withdrawals.
2. Same as #1, but utilization is applied annually each time policy changes age, even if the age bracket doesn't change.
3. Same as #1, but the rate applied when switching to the next age bracket is applied to the initial policies in force and the rate is the difference between the next age bracket and the prior age bracket.
4. Same as #3, but the rate is applied each year when the policy changes age.

We believe that the most appropriate interpretation as currently written is Tab #3, which would apply the assumption at the contract level and would trigger each time the contract enters a different bucket based on the original policy count. For example, a non-qualified contract Aged 74 at the projection start would immediately have 50% begin withdrawal, and once it turns 76, 15% (65% -50%) of the original policy will begin withdrawal. Thirty-five percent of the policy will never have a withdrawal.

Comments on current draft

The Subcommittee is committed to a PBR framework. Prescribing a utilization assumption at a certain age or duration may not always be conservative depending on the product design. We understand the intention of the SPA is to catch outliers, and thus it may be more appropriate (and clearer) to allow companies to use their best estimate assumption, with an implied margin from requiring all or most policies to begin withdrawal at a certain age or duration and all policies taking 100% of the GLWB benefit once payments begin. Potential language to do this could be as follows:

> For contracts in the Accumulation Reserving Category with a guaranteed living benefit, partial withdrawals shall be projected to commence pursuant to the best estimate assumption of the company with the additional requirement that [all or A%] qualified policies begin withdrawal at the earlier of attained age [X] or duration [Y] and [all or B%] non-qualified policies begin withdrawal at the earlier of

attained age [Z] or duration [W].

Potential numbers for the variables could be Y = W = 10 years, X = age 75, and Z = age 85. The Subcommittee recommends that A and B are set to values closer to 100%. Specifically, the non-qualified ultimate cumulative rate looks too low, given the intent of the SPA to catch outliers. A consideration for determining A and B is whether there should be some level of the cohort of GLWB policies that "never elects" to begin payments.

If the intention is to prescribe a utilization assumption based on attained age, then along with confirming the interpretation as currently drafted is similar to Tab #3, which could be further clarified and addressed through a practice or guidance note, the Subcommittee has the following comments:

- The assumption as currently drafted causes potential issues both in early projection years (e.g., large number of policies begin withdrawal immediately) and in later years (e.g., 35% of non-qualified policies never going on withdrawal). Both concerns could be addressed either by the assumption being changed to duration instead of attained age basis or allowing companies to use their own best estimate while requiring all or most policies to begin withdrawal at a certain age or duration.
- Uncertainty as to how best to apply this assumption is driven by the table referenced above, which applies attained age basis instead of the more common duration basis. Aside from duration basis (e.g., 50% withdrawal after duration 10, 45% withdrawal after duration 15, 5% never withdrawal) being the more common assumption, we also believe that using an attained age basis for this assumption has the following issues, each of which could be avoided if duration basis is instead applied:
    - The assumption may not be applied consistently across companies due to some companies using age-nearest birthday (ANB) and some using age-last birthday (ALB). Duration would not have this issue.
    - Attained age would cause a large portion of policies not on withdrawal to immediately begin withdrawal at the start of the projection due to the assumption being applied at the contract level instead of the population level, and early withdrawal may not be conservative depending on product design.
        - For example, assume a company sells 100 Age 66 non-qualified policies in 2024. All policies persist until 12/31/24. In the model projection, 35% of all policies not on withdrawal would immediately begin withdrawal,
            - If no policies had started withdrawal, 35% of the in force would be on withdrawal;
            - If 35% of policies had already begun withdrawal, 58% of the in force would be on withdrawal (35 + 65*0.35).
        - This issue is magnified for VM-22 due to only prospective business being included, which prevents the assumption being applied at the population level.

We appreciate the opportunity to provide these comments on the proposal. If you have any questions or would like to discuss this letter further, please contact Amanda Barry-Moilanen (barrymoilanen@actuary.org), the Academy's policy project manager, life.

Sincerely,

Bruce Friedland, MAAA, FSA
Chairperson, Annuity Reserves and Capital Subcommittee American
Academy of Actuaries