



February 25, 2025

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

Re: Comments on the Chair Exposure for Remaining Decisions on Framework

Dear Chair Slutsker,

On behalf of the Annuity Reserves and Capital Subcommittee (Subcommittee) of the American Academy of Actuaries,<sup>1</sup> I appreciate the opportunity to comments on the Chair Exposure for Remaining Decisions on Framework (Exposure) and am pleased to provide the following comments.

#### Reinvestment Guardrail

The Subcommittee is appreciative of the alternative proposals in the Exposure. However, we continue to support the Academy proposal from February 9, 2022 (5% Treasury, 15% AA, 40% A, 40% BBB). This mix is more reflective of the actual industry investment practices of companies while still having significant elements of conservatism.

#### Stochastic Exclusion Ratio Test (SERT) Threshold

Absent any aggregate field test data, the Subcommittee does not believe that there is sufficient data for setting the SERT Threshold without additional analysis and testing. We believe the following steps should be taken:

- Set a placeholder threshold—one option could be using the current 6% from VM-20, or the revised threshold that is set after GOES is formally adopted.
- Conduct some additional testing with the model office on items that may materially impact the SERT results include different initial assets, single issue year results, different entry ages, different product features (e.g. lump sum for SSC or life only SPIA), and different starting economic conditions. One reason to perform additional testing is to explain the large difference in EY SERT results for FDA (WB) and FIA (WB).
- Follow up with companies that submitted stochastic results and request SERT results. Alternatively, potentially use distribution of stochastic results to estimate SERT.

Additionally, the Subcommittee is offering to work with EY or separately on this additional testing and analysis.

---

<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 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.

### SERT Mortality Sensitivity

SERT first and foremost is intended to be a measure of interest rate, asset return volatility, and reinvestment risk. The Subcommittee is supportive of the additional mortality factor tests for VM-22 where mortality can sometimes be the only material liability assumption but does not believe it should be the main determinant of the final ratio.

With the absence of additional field test data, we believe the current 5% mortality factor is appropriate for SERT because SERT is a measure of interest and asset risk and a change in mortality should not be the sole driver for a product being subject to a stochastic reserve. There could be several drivers that could change the magnitude of the 5% mortality sensitivity observed in model office results, including:

- The model office had a relatively high average attained age for the field test block, lowering the SERT result and its sensitivity to mortality shocks.
- Only modeling life with certain for SPIA lowers the mortality sensitivity SERT result.
- VM-22 is prospective only, and the sensitivity is likely to be more impactful on a single-issue year than a full block.

### Deterministic Certification Option (DCO)

Currently, the Deterministic Reserve (DR) is only eligible through passing SERT, unlike VM-20 which has three possible options. SERT is a measure of *variation* and not necessarily a test to show a stochastic reserve is more appropriate than another reserve calculation such as the DR, especially for products that consistently have the same scenarios in the tail.

As an example, assume the following 10 simulations were run, with scenario one being a consistently high interest rate and scenario 10 being a consistently low interest rate. For a block of structured settlements that are significantly lower in average age, there will be a greater dispersion of results due to the longer duration, which would increase the SERT ratio—however, that does not necessarily mean the CTE (70) is a materially more appropriate reserve calculation than the deterministic reserve.

	Sim #	SPIA, Avg Age 70	SPIA, Avg Age 50
Pop Up*	1	95	90
	2	96	92
	3	97	94
	4	98	96
	5	99	98
Best Estimate*	6	100	100
	7	102	105
	8	104	110
DR*	9	106	115
Pop Down*	10	108	120
	CTE(70)	106	115
	DR	106	115
	SERT	8.0%	20.0%

\*Assuming SERT scenarios are reflective of the stochastic set\*

We believe that contracts with predictable and stable cashflows; limited and non-interest rate sensitive behavior; and no material future premiums should be allowed to calculate the DCO without having to pass

SERT with no mortality shocks. For these products, a well calibrated DR that is reflective of the stochastic set should consistently produce a similar result to the CTE (70), and it is potentially redundant to go through the stochastic reserve calculation. We believe that section 7.E should be moved to the top of Section 7 and remove the requirement of passing the SERT with no mortality shocks as a condition to allow for the DCO, while adding additional constraints to the contracts that are eligible for this option and additional required disclosures, as shown in the markup below:

#### A. Deterministic Certification Option

1. Instead of a Stochastic Reserve (SR), the company may determine a DR for a group of contracts using a single deterministic economic scenario, subject to the following conditions.
  - a. The company certifies that the contracts and certificate have predictable, stable cash flows and limited contract holder behavior, and economic conditions do not materially influence anticipated contract holder behavior for the group of contracts and certificates. Examples of contract holder options that are materially influenced by economic conditions include surrender benefits, recurring premium payments, and guaranteed living benefits.
  - b. The company certifies that the group of contracts and certificates is not supported by a reinvestment strategy that contains future hedge purchases.
  - ~~c. The company must perform and disclose results from the stochastic exclusion ratio test following the requirements in Section 7.C, and the company must pass the SERT when considering only the 16 economic scenarios paired with the 100% mortality scenario.~~
  - d. The company must disclose a description of contracts and associated features in the certification along with the rationale for using the Deterministic Certification Option instead of the stochastic reserve.
  
2. The DR for the group of contracts under the Deterministic Certification Option is determined as follows:
  - a. Cash flows are projected in compliance with the applicable requirements in Section 4, Section 5, Section 10, and Section 11 of VM-22 over a single economic scenario (scenario 12 found in Appendix 1 of VM-20).
  - b. The DR equals either the scenario reserve following the requirements for Section 4 or the present value of benefits as described in VM-20 Section 4.A.

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

Sincerely,

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