



November 26, 2025

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

Re: Chair Exposure regarding [VM-22 Settlement Options](#)

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 comment on the recent chair exposure requesting discussion on the treatment of settlement options stemming from host contracts issued before the Valuation Manual (VM)-22 implementation date (Settlement Option Exposure), and am pleased to provide the following comments.

### **Response to Exposure Item 1**

The Subcommittee believes that settlement options should be subject to the pre-VM-22 tabular reserve calculations described in VM-A, VM-C, and VM-V or the post VM-22 requirements, as appropriate, at each company's option, based on their particular circumstances. The choice should be based on the company's specific facts and circumstances (e.g., an approach that aligns best with their actual risk management and investment management frameworks), subject to disclosure of the company's rationale for the decision. Once a decision is made for a particular block of business, each company should then remain consistent in its treatment for all future valuations.

Our recommendation stems from the fact that the most appropriate treatment could vary by company (or even by block) based on its particular facts and circumstances, as demonstrated by the following examples:

- 1.) Company A maintains a single asset segment and joint risk management framework for all of its payout annuity and settlement option contracts, regardless of the type of contract or election that generated the payment stream.

When the settlement option is elected or account value is depleted on the original contract, assets are transferred from the contract's original asset segment to the commingled payout and settlement option asset segment and reinvested in a manner to fund the annuity stream, regardless of the form of the original contract. The new contract also moves into the risk management framework the company uses for its payout annuity obligations.

For Company A, the date of issue of the original contract is of little relevance from a portfolio

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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 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

and risk management perspective, the risks associated with the settlement option and its host contract were not managed jointly prior to annuitization, and we believe a principle-based valuation would best capture the risks to which Company A is exposed prospectively. Hence, Company A should be permitted to apply PBR once operationally capable of doing so.

- 2.) Company B maintains a single asset segment and a joint risk management framework under which its settlement option contracts are managed jointly with contracts still in the accumulation phase for both portfolio management and risk management purposes. When the settlement option is elected on the original contract, assets remain in the same segment as the original contract, and the same joint risk management processes continue to apply.

For Company B, no assets are disinvested or reinvested at the point at which a settlement option is elected. Instead, Company B makes portfolio-level investment and risk management decisions for contracts issued prior to the implementation of VM-22 based on its overall projected net cashflow stream and projected reserves, which are predicated on the settlement options being valued according to the pre-PBR discount rate requirements of VM-V. Company B is planning to create a *de novo* asset segment for its PBR business, which would not include host contracts issued prior to the implementation date of VM-22 PBR.

For Company B, it would be more appropriate to permit valuation of the settlement option benefits using the pre-PBR requirements of VM-V, since the investment and risk management decisions being made by Company B are aligned with and have anticipated continuation of the VM-A, VM-C, and VM-V requirements once the contract enters the payout phase.

As these two examples demonstrate, either VM-22's PBR requirements or the pre-PBR requirements could be appropriate for a given block of business or company. Hence, we support providing companies optionality in determining the most appropriate choice based on their factors and circumstances, subject to disclosure of the company's rationale for the decision. Once a decision is made for a particular block of business, each company should then remain consistent in its treatment for all future valuations, and companies shall discuss with domiciliary regulators if they wish to change their approach. We believe this optionality is consistent with existing statutory reserving precedent, including VM-V Section 1.A.3.a in the 2026 edition of the Valuation Manual.

Please note that, in forming its recommendation, the Subcommittee believes that the term "settlement options" in the Settlement Option Exposure should be expanded to include i.) the election of an annuitization option on a deferred annuity contract or a life insurance contract where proceeds have been elected to be received periodically as a life-contingent payout annuity or as an annuity certain, ii.) the annuitization of a host contract, iii.) a deferred annuity with a guaranteed living benefit where the account value has become depleted and guaranteed payments remain payable (an "on-claim guaranteed living benefit (GLB)"), and iv.) a contingent deferred annuity once the underlying contract funds are exhausted (an "on-claim CDA"). While the processes generating each of these are different, they are all in-scope for VM-22, and the relevant valuation considerations for each of these categories are analogous to those outlined above.

## **Response to Exposure Item 2**

Similar to our response on Exposure Item 1, the Subcommittee believes that companies should be given the option of electing whichever date aligns best with their actual risk management and investment management frameworks for each block of business subject to formulaic reserve requirements. For companies managing their investment portfolios and risk management for their blocks in an integrated manner across the contract's lifetime, using the host contract issue date could be more appropriate. In

contrast, for companies who manage their settlement options, annuitized contracts, and on-claim GLB's separately from their original contracts, it may be more appropriate to use the "premium determination date" as that term is currently defined in VM-V, since that date represents the date investment activity supporting the contractual payments is executed.

Given the potential for either date to be the more appropriate choice for a given block of business, the Subcommittee again recommends allowing each company to select the most appropriate choice based on the facts and circumstances for each block of business, subject to disclosure of the company's rationale for the decision. Once a decision is made for a particular block of business, each company should then remain consistent in its treatment for all future valuations of that block of business, and companies shall discuss with domiciliary regulators if they wish to change their approach. Again, we believe this optionality is consistent with existing statutory reserving precedent, including VM-V Section 1.A.3.a in the 2026 edition of the Valuation Manual.

### **Response to Exposure Item 3**

Subject to the suggested clarifications and edits provided in response to Exposure Item 4 below, the Subcommittee believes that the term "host contract" should be retained.

### **Response to Exposure Item 4**

We recommend the following text be used to replace the current text of the 2026 edition of VM Section II, Subsection 2.C (suggested edits by the Subcommittee are shown in track changes):

*Minimum reserve requirements for non-variable annuity contracts issued prior to 1/1/2026 are those requirements as found in VM-A, VM-C, and VM-V as applicable, with the exception of the minimum requirements for the valuation interest rate for single premium immediate annuity contracts, and other similar contracts, issued after Dec. 31, 2017, including those fixed payout annuities emanating from host contracts specified in VM-V Section 1.A.2.d, Section 1.A.2.e, Section 1.A.2.f, Section 1.A.2.g or Section 1.A.2.h.. The maximum valuation interest rate requirements for those contracts and fixed payout annuities are defined in VM-V, Statutory Maximum Valuation Interest Rates for Formulaic Reserves.*

*Minimum reserve requirements for non-variable annuity contracts issued 1/1/2026 and later, excluding those contracts specified immediately below, are those requirements as found in VM-22, with the exception of Prereed Annuities, Guaranteed Investment Contracts, Synthetic Guaranteed Investment Contracts, Funding Agreements, and other Stable Value Contracts which shall follow the requirements found in VM-A, VM-C, and VM-V.*

*For the following types of contracts:*

- i.) the election of an annuitization option on a deferred annuity contract or a life insurance contract with a date of issue on or after Jan. 1, 2017, but before Jan. 1, 2026, where proceeds have been elected to be received periodically as a life-contingent payout annuity or as an annuity certain on or after Jan. 1, 2026,*
- ii.) fixed payout annuities emanating from host contracts issued on or after Jan. 1, 2017, but before Jan. 1, 2026, with a date of annuitization on or after Jan. 1, 2026,*
- iii.) fixed income payment streams attributable to contingent deferred annuities*

*issued after Dec. 31, 2017, but before Jan 1, 2026, whose underlying contract funds are exhausted on or after Jan. 1, 2026,*

- iv.) fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts issued after Dec. 31, 2017, but before Jan 1, 2026, and whose contract funds are exhausted on or after Jan. 1, 2026,*

*the minimum standard of valuation may be determined at the option of the company either:*

- a.) according to the minimum reserve requirements found in VM-A, VM-C, and VM-V as applicable (including the maximum valuation interest rate requirements defined in VM-V*

*or*

- b.) according to the requirements of VM-22.*

*Once a decision is made for a particular block of business, each company should then remain consistent in its treatment for all future valuations, and companies shall discuss with domiciliary regulators if they wish to change their approach. The minimum reserve requirements of VM-22 are considered PBR requirements for purposes of the Valuation Manual, and therefore are applicable to VM-G.*

We also recommend adding a Guidance Note as follows:

***Guidance Note:*** *The purpose of the optionality for the items referenced in i.) through iv.) immediately above is to permit companies to select the approach to valuing settlement options, annuitizations, and annuities with exhausted fund values and remaining guaranteed payments in whichever manner is more consistent with their actual investment management approach and risk management program. The key factors underlying this determination should be disclosed in an applicable section of the VM-31 report including, but not limited to, sections 3.F.6 a. or 3.F.8.a., and consistency with the risk management or investment strategy(ies) approved by Senior Management (as defined in VM-G) should be documented.*

Thank you for your consideration of these comments. Please contact Amanda Barry-Moilanen ([barrymoilanen@actuary.org](mailto:barrymoilanen@actuary.org)), the Academy's policy project manager, life, with any questions on this comment letter.

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