



January 23, 2026

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

Re: Exposure regarding [VM-22 Pension Risk Transfer Investment Guardrails](#)

Dear Chair Hemphill,

On behalf of the Annuity Reserves and Capital Subcommittee (ARCS) of the American Academy of Actuaries,¹ I appreciate the opportunity to comment on the recent exposure requesting discussion on the VM-22 investment guardrails for pension risk transfer (PRT). I am pleased to provide the following comments.

Investment Guardrails and Consistency of Application

The ARCS noted that the PRT exposure would effectively introduce different reinvestment guardrails for different types of business. To the extent different guardrails are applied to specific blocks of business for any purpose (disclosure or as a binding floor on reserves), we support an approach where blocks with similar risk characteristics should receive consistent reserving treatment, including with respect to the application of guardrails. As outlined below, achieving such consistency may require the expansion of the eligibility of the current proposal to certain non-PRT blocks, and conversely, the exclusion of some PRT blocks from eligibility.

ARCS also noted that applying any liability-specific guardrail contrasts in some ways with the exposure draft of APF 2025-16, which seeks to harmonize the benchmark portfolio credit quality used in reinvestment guardrails across Valuation Manual (VM) chapters. As more fully detailed below, the ARCS suggests that if LATF decides to apply different guardrails across VM chapters and/or products, it should also consider harmonizing the treatment of blocks with similar risk characteristics.

Scope of Proposal

We note that the current proposal would apply to all PRT business, regardless of the specific investment and risk management strategies employed by the issuing company. However, the ARCS noted in our discussions that evaluating the appropriateness of many of the elements of the proposal requires an integrated analysis of the liabilities, the supporting in force assets held on each valuation date, and the company's investment and asset/liability management (ALM) strategies.

The ARCS also noted that, while there are some unique features specific to the PRT market outlined in the proposal (e.g., regulatory review of the investment guidelines in separate account plans of operations, the

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.

Department of Labor fiduciary standards for Plan Sponsors in choosing an insurer), there are other types of stable liabilities (e.g., some payout annuity blocks, some structured settlement blocks), with very similar liability profiles as PRT blocks (e.g., limited to no optionality on liability cash flows, sensitivity only to mortality, most cashflows falling within an investible horizon), for which similar or identical considerations apply.

Based on these two observations, the ARCS believes it may be appropriate for the proposal to be expanded to include other blocks meeting specified principles-based liability and supporting asset/reinvestment criteria as opposed to being available only to PRT blocks. Conversely, we note that it may not be appropriate for all elements of the proposal to be applied to all PRT blocks if the supporting asset, reinvestment, or ALM strategies don't conform with these principles.

Should there be an allowance for illiquidity premia in the reinvestment guardrail?

Applying a fixed illiquidity spread for all PRT business may or may not be appropriate due to material differences in risks driven by each company's asset portfolio and hedging strategy. For some companies, modeling zero illiquidity spread could be appropriate. For example, consider two companies issuing identical PRT liabilities that pursue materially different investment strategies which expose them to different risk factors:

Company A pursues an investment strategy that utilizes only noncallable fixed rate public and noncallable private corporate bonds with fixed future cashflows and an ALM strategy focused on minimizing the degree of cashflow mismatch between in force cash asset and liability cashflows at multiple tenors. As a result, Company A has a well-matched portfolio with an asset duration nearly equal to its liability duration at all projected points in time. As a result, Company A may be exposed to material credit risk from the specific names in its portfolio, but may be less exposed to liquidity risk, reinvestment risk, and interest rate risk. Hence, it may be appropriate to allow recognition of illiquidity premia in Company A's statutory reserves, subject to an appropriate margin consistent with the reserve objective level.

Company B invests in noncallable fixed rate public bonds and floating rate structured securities whose underlying collateral is sourced privately and has material embedded interest rate risk (e.g., prepayment risk, extension risk). As a result of its use of floating rate assets, Company B's asset portfolio interest rate duration is materially shorter than its liabilities. Company B uses a SOFR swap and Treasury futures-based derivative hedging program to manage its residual interest rate risk. Under a moderately adverse interest rate shock, Company B may be required to adjust its investment allocations (e.g., due to cash or Treasury collateral posting requirements on its swaps, due to cash settlement requirements on its futures) that would require it to liquidate its structured securities prior to maturity, potentially at a time when market values of those securities may be depressed. It may be less appropriate to permit recognition of anticipated illiquidity premia in statutory reserves for Company B.

As demonstrated in these examples, the extent to which anticipated illiquidity premia may be realized in practice is dependent on the interaction among the liabilities, supporting assets, and company ALM and reinvestment strategies. If LATF decides to allow for a separate guardrail that includes an illiquidity premium, the ARCS believes that only the portion of the illiquidity premium that is expected to continue into the future and that could be realized under a range of moderately adverse stresses should be reflected in the statutory reserve calculation. The methods and analysis used to support the company's determination of the assumption and the necessary margin should then be disclosed in the VM-31 report.

Should company-specific assumptions be permitted for spread and/or default assumptions?

VM-22 currently allows for the use of company-specific spread assumptions on all assets outside of public noncallable corporate bonds and interest rate swaps, provided that the assumptions are disclosed and documented in the VM-31 report. Thus, ARCS interpreted the question in the proposal as being tied to whether an illiquidity premium should be added to the alternative investment strategy. The ARCS believes the points addressed immediately above are equally applicable, and companies should only include the portion of the spread that can be demonstrated to be achievable under a range of moderately adverse scenarios under the company's actual investment and ALM strategies.

With respect to whether a company should be permitted to reflect company-specific defaults, it may be appropriate for some companies to reflect default loss factors that differ (positively or negatively) from those currently prescribed for PBR purposes, again subject to an appropriate level of margin consistent with the reserve objective level. As discussed above, evaluating the appropriateness requires consideration of the company specifics.

Even if a company has historical data that clearly supports the use of default loss factors that differ from the prescribed factors, it would only be appropriate to reflect this in reserving to the extent the company can demonstrate that 1) such experience is expected to continue in the future and across a range of moderately adverse economic scenarios and 2) the company can demonstrate that it would be able to maintain its planned allocation to such assets under a range of moderately adverse economic scenarios.

With respect to the application of company specific defaults within the PBR calculation, there are two distinct applications that should be evaluated: in force assets and reinvestment assets. PBR currently applies an additional default through the net spread adjustment on all in force assets. Allowing the use of company-specific default assumptions when sufficient data exists to support their determination could potentially allow for more appropriate default rates, whether above or below the prescribed PBR default rate, that better reflect the underlying risk to which the company is exposed. This should be weighed against the loss of insight into the sensitivity of results and how the weighted average net spread compares across portfolios due to the use of a prescribed assumption that is shared across companies.

If company-specific defaults are allowed to be used in the calculation, the ARCS believes there must be consideration given to whether the company assumption would override all three prescribed default components (baseline, spread related factor, and net spread adjustment) of PBR, or only replace either the base or base + spread related factor default rate.

Finally, if LATF decides to allow for the use of company specific spreads and/or defaults, the ARCS is supportive of the use of PBR prescribed spreads and/or defaults in a disclosure-only run in addition to the disclosure of how the company assumptions were set in the VM-31 report.

Thank you for your consideration of these comments. Please contact Amanda Barry-Moilanen (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