



March 17, 2026

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

Re: APF 2025-20 regarding VM-22 Aggregation

Dear Chair Slutsker:

On behalf of the Annuity Reserves and Capital Subcommittee (ARCS) of the American Academy of Actuaries,<sup>1</sup> I appreciate the opportunity to comment on the APF 2025-20 which proposes a removal of the criteria requirements for aggregation of the Payout Annuity and Accumulation Reserving Categories under VM-22. I am pleased to provide the following comments on principles that should be utilized in determining the potential for aggregation.

The ARCS believes that when using the term “aggregation,” there are multiple possible definitions, including:

1. Aggregation *before* the calculation of a scenario reserve, which combines contracts and assets into a single model segment.
2. Aggregation *after* the calculation of a scenario reserve, which would merge the scenario reserves, floor at aggregate cash surrender value, and then take the CTE(70) of the merged results.

ARCS is supportive of actuarially justified aggregation that reflects the management and economics of the business. However, ARCS believes there are risks with allowing aggregation *before* the calculation of the reserves into a single model segment of business that is managed separately that could occur under the current wording of VM-22.

Although “model segment” is defined in VM-01 as “a group of policies and associated assets that are modeled together to determine the path of net asset earned rates,” VM-22 does not provide further guidance on the creation of model segments for the purposes of aggregation. VM-20, meanwhile, states the following in Section 5.A.:

In determining the SR, the company shall determine the number and composition of subgroups for aggregation purposes in a manner that is consistent with how the company manages risks across products with significantly different risk profiles, and that reflects the likelihood of any change in risk offsets that could arise from distributional shifts between product types due to, for example, differing policyholder behavior. If a company is managing the risks of two or more products with significantly different risk profiles as part of an integrated risk management process, then the products may be combined into the same subgroup for aggregation purposes.

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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.

Key amongst this information is that the grouping is done based on how a company manages risks, and combining products with significantly different risk profiles into a single model segment requires an integrated risk management process. Thus, the ARCS believes a company should only be able to aggregate into a single model segment when it jointly manages and monitors the investment decisions and the risks associated with contracts with different risk profiles (e.g., payouts and fixed deferred annuities), and assets are available to fund cash flows arising from all liabilities within the model segment.

Without this requirement, aggregation benefits for companies that do not jointly manage the investment decisions, or do not jointly monitor and manage the risk associated with the contracts in these two reserve categories as part of an integrated risk management framework, may not always be realized. For example, a newer accumulation annuity block may be supported by longer duration, less liquid assets, while a seasoned payout block may be supported by shorter duration, highly liquid assets. In a modeled moderately adverse scenario, the accumulation block may require liquidity for excess surrenders, which would need to come from liquid assets of the payout block, producing an apparent offset when results are aggregated. If assets from the payout block are unavailable given the company's practices or regulatory constraints, such offset would not be realized. Given this inherent uncertainty between modeled outcomes and reality, we do not believe it would be appropriate to reflect such aggregation benefits in this case. However, we do believe the economic, path dependent aggregation *after* the calculation of the scenario reserves should be allowed where appropriate.

Thus, ARCS is generally supportive of the removal of the restrictions on aggregation across categories. However, if this were done, ARCS believes an additional section may be warranted in VM-22 and VM-31 about the creation of model segments. Some proposed language could be:

#### **VM-22 Section 3.F Aggregation of Contracts for the DR and SR**

1. The company shall determine the number and composition of model segments for aggregation purposes in a manner that is consistent with how the company manages risks across products with significantly different risk profiles, and that reflects the likelihood of any change in risk offsets that could arise from distributional shifts between product types due to, for example, differing policyholder behavior. If a company is both managing the risks of two or more products with significantly different risk profiles as part of an integrated risk management process and jointly managing the investment decisions for these products on an integrated basis, then the products may be combined into the same model segment for aggregation purposes.
  - a. Contracts in different reserving categories shall be in different model segments when determining the SR or DR except as specified in Section 3.F.3

**Guidance Note:** Aggregation refers to the number and composition of subgroups of policies that are used to combine cash flows. Aggregating policies into a common model segment allows the cash flows arising from the policies for a given stochastic scenario to be netted against each other (i.e., allows risk offsets between policies to be recognized). For example, assume Company A and Company B both have a fixed deferred annuity block and a payout block of business.

- Company A has a single asset portfolio and an integrated risk management process in place to manage both blocks of business
- Company B has separate asset portfolios, manages each block of business individually, and has no comingling of assets.

Company A would have the option to create a single model segment, while Company B must have two separate model segments.

2. Groups of contracts within different Reserving Categories may not be aggregated together in determining the SR or DR except as specified in Section 3.F.3. For the purposes of VM-22, Reserving Categories are classified as the following.....

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3. The Payout Annuity Reserving Category and Accumulation Reserving Category may be aggregate d. ~~only if they meet the following criteria:~~

a. ~~The company manages the risks of the contracts within both categories in an integrated risk management process.~~

b. ~~The contracts within both categories are managed within a single portfolio, or portfolios with the same ALM strategy.~~

~~**Guidance Note:** For the purposes of aggregating payout and accumulation reserving categories, the Subgroup plans to revisit whether to include prerequisites to permit aggregation, as well as which criteria and disclosures to focus on for such aggregation.~~

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5. The reserve may be determined in aggregate across various groups of contracts within each Reserving Category, or within the combined Accumulation and Payout Reserving Categories following Section 3.F.3, as a single model segment when determining the SR or DR.

**Guidance Note:** While Section 3.F.5 permits use of a single model segment for a Reserve Category and/or for the combined Accumulation and Payout Reserving Categories generally, the requirements of Section 3.F.1 may nevertheless restrict a particular company from using a single model segment, for example, if the component blocks of business are not managed together as part of an integrated risk management process or if the investment decisions for the component blocks of business are not made on an integrated basis.

6. To the extent that aggregation results in more than one model segment, the aggregate reserve for each reserving category, or within the combined Accumulation and Payout reserving categories following Section 3.F.3, shall be calculated as follows.....

### **VM-31 Section 3.F.2 Cash Flow Models**

a. Modeling Systems – Description of the modeling system(s) used for both assets and liabilities. If more than one modeling system is used, a description of how the modeling systems interact and how the results from different modeling systems are combined to determine the aggregate reserve.

b. Model Segments – Description and rationale for the organization of the contracts and assets into model segments, if any, as referenced in VM-21 Section 3.D, VM-22 Section 3.F.1, and VM-22 Section 3.F.4.

c. Model Validation – Description.....

### **VM-31 Section 3.F.14.j Aggregation**

ii. For VM-22, support that the criteria in to the extent the Payout Annuity Reserving Category and Accumulation Reserving Category are aggregated pursuant to VM-22 Section 3.F.1, provide a breakdown of reserve results (SR and CSV) for each Reserving Category, both pre- and post-reinsurance, along with case counts and face amounts.is met.

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