



March 3, 2026

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

Re: VM-22 in force Exposure from Fall 2025 National Meeting

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 respond to [LATF's VM-22 in force Exposure](#) from the Fall 2025 National Meeting (Exposure) regarding VM-22 retrospective application.

1. This letter will present pros and cons of the options presented in the Exposure. It should also be noted that neither operational nor tax issues will be considered except at a high level in this letter. Benefits of mandatory adoption under Option C-1, Mandatory Application with Exemption, where policy forms may be excluded based on indicated testing or demonstrations, include:
 - a. More of the annuity reserves would be valued under the more modern and presumably preferable approach.
 - b. Increased consistency of reserve valuations within companies and increased comparability between companies.
 - c. The potential for increased consistency with possible upcoming changes to C3 phase 1.
 - d. Broader adoption of VM-22 would limit opportunities to allocate assets in a manner that minimizes reserves.
 - e. To the extent there are risks inherent in business in force that are not reflected in current reserve methodologies, mandatory adoption of the revised VM-22 would expose those risks more quickly and may identify under-reserved blocks.
 - f. PBR may incentivize stronger asset liability matching.
 - g. PBR documentation requirements and the VM-31 report may increase transparency into asset and liability risks in covered blocks.
 - h. Exclusion tests exist in VM-22 that can scope out blocks that meet specified criteria.

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.

Cons under Option C-1 include:

- a. Under the Additional Standard Projection Amount calculations, assumptions may not be appropriate for all blocks of business that would be covered.
- b. VM-22 may have very little impact on the reserve for certain small and/or older blocks of business. It is possible that some of these issues can be addressed through materiality exclusions (see question 5) and through use of the stochastic exclusion test.
- c. The VM-22 field test had limited participation and tested one economic environment. There may or may not be enough information to determine whether VM-22 works as intended for certain blocks of business, or whether enough information was gathered to understand the impacts on blocks of business across different economic environments.

Benefits and cons under Option C-2, Mandatory Application with Exemption, but must apply to all products and issue years within the scope of VM-22, would be the same as under Option C-1.

An additional con under C-2 is that being able to pass stand-alone cash flow testing (referring to all blocks subject to VM-22) is highly dependent on a company's mix of business at the point of testing. The blocks tested may have materially different cash flow testing results over time as the mix of business changes.

Under Option D, Optional Application: Consistent Across Block, benefits include:

- a. Companies retain some flexibility to choose and justify what blocks are valued under VM-22. Many of the considerations have been described above.
- b. It avoids any perception that reserves are in need of "correction" by mandating retrospective adoption.

Cons associated with Option D include:

- a. There may be challenges to make reserve comparisons between companies.
- b. There may be less synergy with C3 phase 1.
- c. There may be asset allocation choices that minimize reserves inappropriately.

Under Option E, Optional Application: Optional by Product, the same benefits and cons of Option D apply. An additional benefit of Option E over Option D is that companies would retain even more flexibility to decide which blocks should be valued under VM-22, again with the appropriate disclosure of the rationale for the choices made. The end result should be avoiding immateriality issues or valuing blocks under VM-22 with little impact on reserves. Option E is a bit more of a surgical approach to determining which blocks should properly be valued under VM-22, compared to the other options.

2. Retrospective application should go back to at least 2017, but applying to all issue years would be preferable.
3. A phase-in period would be ideal to ease the challenge for some companies applying the revised VM-22 to in force business by allowing the change to occur gradually. It would also be

beneficial, if possible, to align the adoption of VM-22 to in force business to the adoption date of any related revisions to C3 phase 1. Early adoption should be permitted.

4. We have no comment on regulatory resources.
5. We believe that there should be an exemption for immaterial blocks of business. This would alleviate practical concerns without materially reducing the integrity of the valuation. Since companies vary significantly in the size of their VM-22 blocks, there should be a percentage threshold, say less than x% of a company's VM-22 reserves. However, to accommodate smaller companies or companies with very small VM-22 blocks, there should also be a dollar threshold subject to a higher percentage, say, \$x million subject to being less than y% of a company's VM-22 reserves.

Closed blocks should be eligible for the materiality exemption, but it does not seem to make sense to exempt closed blocks entirely if those represent a substantial portion of a company's VM-22 reserves. Perhaps a higher materiality threshold percentage could be used for closed blocks.

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