June 22, 2026

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

Re: VM-22 Retrospective Application Exposure

Dear Chair Slutsker:

On behalf of the Annuity Reserves and Capital Subcommittee (ARCS) of the American Academy of Actuaries,[1] we appreciate the opportunity to comment on the VM-22 Retrospective Application Exposure, which puts forth several questions regarding the potential retrospective application of VM-22.

1. What are types of potential evaluation criteria for explaining the reserve impact and drivers, and how frequently should these be provided?

For retrospective adoption, companies should clearly demonstrate the impact of transitioning a block from pre-PBR CARVM to VM-22. The objective is to provide transparency into both the magnitude of reserve changes and the key drivers, while allowing reasonable flexibility in approach.

Evaluation Criteria

The following criteria are appropriate:

- **Reserve comparison**: Comparison of pre-adoption and post-adoption (VM-22) reserves, including results both before and after aggregation with existing VM-22 business. Where applicable, results should also be presented gross and net of reinsurance.

- **Attribution analysis**: A clear and structured reconciliation from pre-adoption to VM-22 reserves that identifies and explains the key drivers of change, including but not limited to:
    - Methodology differences;
    - Discount rate impacts;
    - Asset and reinvestment assumptions;
    - Policyholder behavior;
    - Aggregation impacts.

Companies should have flexibility in approach, though some consistency may aid regulatory review. Results should be reasonably granular to identify the material drivers of the difference in reserves, yet not so granular that significant work with little value is performed.

- **Key risk and economic metrics**: Companies may be expected to provide metrics that give context on the underlying risk profile and help assess the drivers of reserve differences. These metrics would generally be consistent with information already produced for VM-31 documentation, rather than representing new reporting requirements. Examples include, but are not limited to:
    - Asset/liability duration;

[1] The American Academy of Actuaries is a 20,000-plus 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.

  - Asset yield;
  - Interest rate sensitivity;
  - Sensitivity of reserves to key liability assumptions, including policyholder behavior (e.g., surrender and lapse), mortality, and longevity;
  - Margins on key assumptions;
  - Description of the scenarios driving reserve outcomes.

- **Sensitivity testing**: Performed where reserve changes are material to help distinguish impacts driven by underlying economics versus methodology differences.

Frequency

- **Initial analysis**: A one-time analysis at the point of election, sufficient to support the adoption decision.
- **Ongoing reporting**: After adoption, the business would be subject to standard VM-22 reporting and governance, including VM-31 documentation. No separate or ongoing reporting specific to retrospective adoption is intended.

2. Should there be a one-time option to implement or could companies implement at future points?

ARCS believes there are valid arguments for allowing for either a one-time option or for future points, both of which offer benefits and drawbacks for your consideration:

Option A: All companies implement at the same time.

a. The benefit of this option is the changes to reserves would happen uniformly across the industry, instead of over a staggered period of time. This would allow regulators to gain greater insight into the movements of reserves and the methodologies used across companies.
b. One key drawback is the increased burden on regulators in the year of the implementation. Additionally, some companies may want and be ready to adopt sooner, while others may want to wait until their systems are upgraded or until capital framework changes are finalized. Regulators may be able to learn from early adopters and address concerns before others adopt.

Option B: Companies can select different points in time, but when a company selects a point in time, it must be for all businesses that would be brought into VM-22.

a. The key benefit of Option B when compared to Option A is the flexibility it provides companies to adopt when they are ready, rather than waiting until the entire industry is ready. It potentially increases the number of companies that decide to adopt VM-22 retrospectively. A staggered implementation period would allow regulators to learn from early adopters who are ready to adopt sooner than others.
b. Drawbacks include the potential shifts in reserves and capital happening at different points in time for different companies, as well as the possibility that a majority of companies would wait until the end of the implementation window in order to implement all of their optional business, instead of implementing each block of business as they are ready.

Option C: Each company can select different points in time for different blocks of business

a. We believe this path provides companies with the most flexibility of implementing retrospective VM-22 and is the most likely to encourage more companies to retroactively adopt VM-22. It is the most in line with the currently proposed optional adoption framework, where companies can adopt each retroactive block by policy form as they are ready. This in turn will potentially increase the dispersion of when blocks of business are adopted, allowing regulators to gain

insight into more early adopters

b. The primary drawback of this option is, unlike Option A or B, the full impact of retrospective adoption on the company is unlikely to be captured at one point in time and, instead, will be staggered. This can be material, due to the levels of aggregation allowed in VM-22. For example, assume company ABC adopts a retrospective FDA block in 2028 a retrospective payout block in 2029 that is aggregated with the previously adopted FDA block, and a FIA block in 2030 that is aggregated with payouts and FDA. This would make understanding the full impact of retrospective adoption difficult to capture until after the company is finished adopting all optional blocks of business.

Regardless of which path is taken, ARCS believes that adoption should be irrevocable. Companies should not be allowed to go back to CARVM after electing PBR. Ideally, the implementation window should partially overlap with the implementation of VM-22 on a prospective-only basis. This allows for early retrospective adopters to reduce large year-over-year variances that could be due to changes in methodology (e.g., asset selection) arising from modeling a prospective-only block one year and a full-retrospective block the next. The implementation window for retrospective adoption should have a reasonable end date.

3. How should testing be designed to address aggregation impacts on business already valued under VM-22 requirements?

ARCS recommends that reserves be calculated and disclosure be provided in a couple of different ways. Calculations should be performed for all blocks of business that can be adopted retroactively, unless rationale is provided for why calculations are not done for a particular block that is not being retrospectively adopted (e.g., small, closed block of business). Materiality or other considerations should be explained by the actuary to justify why numerical calculations for any blocks of business were not included. ARCS also recommends that companies wishing to adopt VM-22 prospective-only need not provide information on older blocks of business. Blocks should be determined based on similar product form and product characteristics, as well as whether the company intends to apply VM-22 to that block or not. For each block of business, reserves should be run on a standalone, pre-VM-22 basis as well as on a VM-22 basis. This would identify the benefit or cost from a reserving standpoint of moving or not moving the block reserve calculations to VM-22.

For each retroactive block that will be moved to VM-22,

- The aggregation benefit of combining that block with the current VM-22 block should be calculated. For example, Blocks A, B, and C are targeted to move from a pre-VM-22 basis to VM-22. Block A is aggregated with the VM-22 block, while Blocks B and C are not included. The same is done for Blocks B and C independently of one another. This will identify the aggregation benefit of adding a particular block to VM-22.

- All proposed blocks to move to VM-22 would then be aggregated with the VM-22 block, so that the aggregation benefit can be determined. There will likely be some disconnect with the prior analysis because of aggregation benefits between retroactive blocks. This will identify the overall aggregation impact from the proposed retrospective block movements to VM-22.

- All blocks would then be run, both those that are intended to move to VM-22 and those that are not, with the VM-22 block to determine the aggregation benefit. This will identify if there is a material difference in reserves, whether retrospective adoption was all or nothing.

There should be descriptive information provided explaining company decisions on moving to VM-22 or not. This should include any explanation of material reserve decreases from the decisions made.

All of these analyses should reflect VM-22 rules on aggregation, such as by reserving category or being able

to combine the payout and accumulation categories, appropriate model segments, etc.

4. If a portfolio supports both VM-22 business and pre-PBR CARVM business, what requirements would help address concerns of intentionally allocating assets to achieve lower reserves?

Generally speaking, good risk management practices provide reasonable matching of asset and liability cash flows. When only a portion of the liability is under VM-22, there is a need to segment the assets that are managed in aggregate for the full liability down to only the portion of the liability under VM-22. To address concerns for how the assets are segmented, we suggest the following safeguards be considered:

- A reconciliation of the asset portfolio should be provided with rationale that describes how assets are segmented across VM-22 and non-VM-22 business. Consistency with the allocation method and the company's day-to-day asset management should be explained.
- Required alignment of asset allocation, including any approximation methods used for the setting of non-guaranteed elements (NGEs) and the asset allocation, used for VM-22.
- Enhance cash flow testing guidance, disclosures, and oversight to ensure that assets allocated for VM-22 are not counted elsewhere.
- Descriptive statistics about the economic risk position of the relevant portion of the company's General Account, using the company's own methodology, demonstrating the appropriateness of assets selected for VM-22, as well as similar measures to demonstrate the impact of any segregation on the residual balance sheet's risk position. Such details could include (for both allocated assets, in-scope liabilities, and the net of asset and liability outcomes with definitions e clarified at a later date):
  - Liability and effective asset duration;
  - Interest rate metrics;
  - Market/Book value;
  - Market value by issue year or WAL;
  - Implied net spread (e.g., yield relative to cost of funds).
- A movement analysis of assets allocated to in-scope liabilities with any movement beyond routine acquisition and disposition activity fully rationalized (and scrutinized by regulators).
- Stress testing alternative asset allocations such as a pro-rata slice of the company's entire General Account or using a benchmark starting portfolio

5. How can AG 53-type asset documentation be used in disclosures and evaluation criteria?

Since not all assets would necessarily be used to value the blocks under VM-22, a description of the assets used (e.g., using AG 53 categories) along with their net market spread and guideline excess spread may be helpful. Assets not used in the evaluation can be similarly identified. An explanation of the decision process used to include or not include certain assets could also be helpful.

There may also be value in understanding how complex assets are valued and modeled. Descriptive information in this regard should help in understanding the company's thought process.

6. **When and how could the NAIC Valuation Analysis (E) Working Group be involved in the review process?**

ARCS does not have any specific comments or positions on how VAWG could be involved.

We appreciate the opportunity to provide our feedback on the retrospective application exposure. If you have any questions or would like to discuss these comments further, please contact Marie Fabienne

Amisial (amisial@actuary.org), the Academy's life policy project manager.

Sincerely,
Bruce Friedland, MAAA, FSA
Chairperson, Annuity Reserves and Capital Subcommittee