August 4, 2026

Rachel Hemphill, Ph.D., MAAA, FSA, FCAS
Chair, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: Life Actuarial (A) Task Force Request to Review VM Prescribed Spreads and Defaults Response Letter

Dear Chair Hemphill:

On behalf of the Life Practice Council of the American Academy of Actuaries,[1] I appreciate the opportunity to respond to the Life Actuarial (A) Task Force's (LATF) request following its April 30th meeting. Specifically, LATF requested that the Academy's Life Reserves Subcommittee (LRS) review the Valuation Manual prescribed default and spread methodology used in VM-20, VM-21, and VM-22, and either confirm that the methodology remains appropriate and produces moderately adverse net spreads or recommend updates.

In response to LATF's inquiry, we confirm that the prescribed methodology remains appropriate. The methodology is designed to produce default cost and spread factors equal to a 70 CTE (Conditional Tail Expectation) target, utilizing current default and spread experience data that is regularly updated. This 70 CTE target was chosen to represent moderately adverse conditions, which is consistent with the moderately adverse target assumed in other elements of the PBR calculation.

Because the methodology applies established formulas to regularly updated experience data rather than relying on static prescribed factors, it avoids obsolescence and is intended to be used on an ongoing basis, provided the underlying experience data remains updated. This intent is supported by the documented update schedule: default cost tables are updated annually, current spread tables monthly, and long-term spread tables quarterly. When initially developed in 2009, this approach was thoroughly tested using publicly available experience data from a well-known investment company. As part of the Academy's current review, we have recently consulted with the Academy members who originally developed this framework, and they confirmed that the methodology does not require modification solely due to passage of time, provided the underlying experience data continues to be updated. This insight aligns with the Academy's Life Practice Council's conclusion.

Separately, we offer the following observations regarding implementation of the model and reinvestment guardrails.

First, while we believe the methodology originally developed by the Academy's Life Reserves Subcommittee (as summarized in VM-20 Appendix 2) is still appropriate for use today, it is important that

[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.

the tools and processes used by the NAIC to actually generate the prescribed tables accurately implement that methodology. This includes confirmation that the correct data sources and formulas are applied, as well as maintenance of appropriate governance over the production process, such as documentation, change-control procedures, and review of the resulting tables prior to their publication.

Second, we suggest that LATF considers whether the alternative (guardrail) reinvestment strategy warrants adjustment. Currently, 100% of fixed income reinvestment must be in public non-callable corporate bonds, effectively eliminating any complexity or illiquidity premium that many insurers often earn on the less liquid assets commonly used to support long-duration, illiquid liabilities. Allowing a reasonably conservative recognition of such premiums within the guardrail could improve the economic realism of the cash-flow projections while still preserving an appropriate degree of prudence.

The Academy does not, at this time, have a specific proposal for how any such adjustment could be structured. We nonetheless believe the issue merits regulatory consideration and note that public stakeholders may be able to provide valuable input to the discussion. For example, LATF may want to consider if the current framework for prescribed spreads and defaults on public non-callable corporate bonds could effectively be expanded to other types of fixed income assets that offer the possibility of additional net spread due to additional illiquidity and/or complexity risk.

We thank LATF for the opportunity to comment and look forward to contributing to further discussions on these matters. If you have any questions or would like to discuss these comments further, please contact Marie Fabienne Amisial (amisial@actuary.org), the Academy's policy project manager, life.

Sincerely,

Kirsten Pedersen, MAAA, FSA
Vice President, Life Practice Council