

October 30, 2026

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

Re: VM-22 Subgroup Chair 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 provide a proposed framework for optional retrospective application of VM-22 to eligible in-force non-variable annuity business and are pleased to provide the following comments.

Our recommendation is to create a new Section 14 within VM-22 to provide a limited path to retrospective adoption while preserving regulatory transparency and appropriate safeguards. This section would only be used by companies that utilize optional retrospective adoption and would require two additional changes to VM-22 Section 2.B and VM Section II, Subsection 2.C. The framework intentionally uses materiality and applicability concepts so that regulatory review focuses on meaningful impacts without requiring unnecessary analysis. There would be no additional analysis required under this section for companies that remain prospective only.

Key design assumptions reflected in the proposed Section 14

- *Optional, one-time election*: A company may elect VM-22 for one or more Eligible Retrospective Blocks, but the company may make the election only once. Blocks not included in that election cannot be added later, and adoption is irrevocable for elected blocks.

- *Eligible blocks*: Eligible business generally consists of contracts that would otherwise be within VM-22, were issued or assumed on or after Jan. 1, 2017 are not already required to be valued under VM-22 and are valued immediately before adoption under VM-A, VM-C, VM-M, and VM-V. Blocks are based on similar product forms and characteristics and may not be subdivided solely for purposes of retrospective adoption.

- *Timing and regulatory review*: The current draft contemplates adoption during the bracketed 2028-2031 period. A formal election request would be submitted to the domiciliary commissioner by July 1 of the adoption year, subject to rejection before Oct. 1, with advance regulatory discussions encouraged.

[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.

Required Analysis

- *Reserve impact and aggregation*: For adopted blocks, companies would compare the Pre-Adoption Reserve with standalone and aggregated VM-22 results, including pre- and post-reinsurance-ceded results where applicable. Companies would also identify all eligible blocks, including those not adopted, and explain the basis for the selection. Aggregation analysis would separately show the effect of each adopted block, all adopted blocks, and, subject to a reasonable exception, all eligible blocks.

- *Drivers and sensitivities*: Material reserve changes would be supported by attribution analysis, relevant risk and economic metrics, and sensitivity testing sufficient to distinguish effects from methodology, economics, and insurance assumptions. The analysis would also address asset adequacy or cash-flow-testing impacts, including AG 53 and AG 55 where applicable.

- *Assets, reinsurance, and ongoing reporting*: Companies would reconcile starting assets, explain asset allocation and material movements, demonstrate that assets are not double counted, and identify material reinsurance and collateral impacts. The adoption-year VM-31 report would include or reference the supporting analysis, followed by four annual valuation dates of standalone reporting on material changes for the retrospectively adopted blocks.

We believe the proposed Section 14 provides the greater clarity and detail into potentially large movements in statutory reserves. Additionally, we believe that, if the Task Force moves forward with our recommendation, the creation of a prescribed template for reporting would provide consistency and comparability across companies for regulators. The following sections contain the proposed edits along with the new Section 14.

Proposed Conforming Amendments

VM-22 Section 2.B - Transition. Add the following sentence at the end of Section 2.B:

"Notwithstanding the foregoing, a company may elect to apply the requirements of VM-22 to eligible in-force business pursuant to the optional retrospective adoption requirements of Section 14."

Valuation Manual Section II, Subsection 2.C - Annuity Products. Add the following sentence to the provisions addressing non-variable annuity contracts issued prior to Jan. 1, 2026:

"Notwithstanding the foregoing, contracts otherwise subject to the requirements of this Paragraph may be valued under VM-22 pursuant to an election made in accordance with VM-22 Section 14."

Proposed Section 14: Optional Retrospective Adoption for In-Force Business

A. Purpose and Scope

1. At the option of the company, and subject to the requirements of this Section, a company may make a one-time election prior to [date] to apply the requirements of VM-22 to one or more Eligible Retrospective Blocks.

2. An Eligible Retrospective Block shall consist of contracts, certificates, or contract features that:

a. Would fall within the scope of VM-22 Section 2.A based on the nature of the contract, certificate, or contract feature;

b. Were issued or assumed on or after Jan. 1, 2017;

c. Are not otherwise required to be valued under VM-22 as of the Retrospective Adoption Date

solely as a result of the applicable issue date, assumption date, or the transition provisions of VM-22 Section 2.B; and

d. Are valued immediately prior to the Retrospective Adoption Date pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V.

3. Contracts, certificates, or contract features issued or assumed prior to Jan. 1, 2017 shall not be eligible for the election provided by this Section.

B. Definitions

For purposes of this Section:

1. **Eligible Retrospective Block** means a block of business satisfying the requirements of Section 14.A.2. A company may have more than one Eligible Retrospective Block, pursuant to Section 14.C.6.

2. **Retrospective Adoption Date** means the valuation date in calendar year [2028, 2029, 2030, or 2031] on which the company first applies the election provided by this Section.

3. **Retrospectively Adopted Block** means an Eligible Retrospective Block that the company elects to value under VM-22 pursuant to this Section.

4. **Pre-Adoption Reserve** means the minimum statutory reserve that would be held for an Eligible Retrospective Block on the Retrospective Adoption Date in the absence of the election provided by this Section, determined pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V.

5. **Existing VM-22 Business** means contracts, certificates, or contract features already valued under VM-22 immediately prior to the Retrospective Adoption Date.

6. **VM-22 Reserve** means the final reserve as described in VM-22 Section 3.A and includes any required reserve strengthening driven by the Additional Standard Projection Amount (ASPA), reflecting applicable support, as described in Section 3.C. If the company uses the Deterministic Reserve (DR), the company shall provide the associated documentation for passing the Single Scenario Tests.

C. Election Requirements

1. A company may elect retrospective adoption for one or more Eligible Retrospective Blocks. A company shall not be required to elect retrospective adoption for all Eligible Retrospective Blocks.

2. The election under this Section may be made only once by a company. All Eligible Retrospective Blocks for which the company elects retrospective adoption shall be identified as part of that election.

3. After making the election under this Section, the company cannot subsequently elect retrospective adoption for an Eligible Retrospective Block that was not included in the original election.

4. A company that has not made an election under this Section by [Dec. 31, 2031] shall not thereafter make an election under this Section.

5. The election to apply VM-22 to a Retrospectively Adopted Block shall be irrevocable. The company shall continue to apply the requirements of VM-22 to such block for all future valuation dates.

6. An Eligible Retrospective Block shall be determined based on similar product forms and product

characteristics and shall be defined in a manner consistent with the manner in which the company manages, models, and evaluates the risks of the business. A company shall not subdivide an otherwise similar block of business solely for purposes of retrospective adoption.

7. Prior to implementing the election, the company shall submit to its domiciliary commissioner the documentation and analyses required by this Section. The election request must be provided by July 1 of the calendar year of adoption. The domiciliary commissioner can reject such statement prior to October 1 of that calendar year.

Guidance Note: *Given the potentially significant extent of the analysis leading to the election request and the review by the regulators, in order to allow for sufficient time to meet these timelines, companies are expected to have discussions with the regulator prior to their submission of their election request. This will allow for potential modifications prior to formal submission of the election request.*

8. The submission shall identify:

a. Each Eligible Retrospective Block;

b. Each Eligible Retrospective Block the company proposes to retrospectively adopt;

c. Each Eligible Retrospective Block the company proposes not to retrospectively adopt; and

d. The rationale for the company's determination with respect to each block.

D. Initial Evaluation and Reserve Impact Analysis

1. The company shall provide an analysis sufficient to demonstrate the impact of transitioning each Retrospectively Adopted Block from the Pre-Adoption Reserve methodology to VM-22. The analysis shall reflect the requirements across the entirety of Section 14.

2. For each Retrospectively Adopted Block, the company shall determine, as of the Retrospective Adoption Date:

a. The Pre-Adoption Reserve on a standalone basis;

b. The VM-22 reserve on a standalone basis before aggregation with Existing VM-22 Business or other Retrospectively Adopted Blocks;

c. The benefit of aggregation as described in Section 6.A.1.a;

d. The VM-22 reserve after application of the aggregation permitted by Section 3.F; and

e. Where applicable, each amount in Subsections a. through d. on both a pre-reinsurance-ceded and post-reinsurance-ceded basis.

3. For each Eligible Retrospective Block that the company does not propose to retrospectively adopt, the company shall determine the Pre-Adoption Reserve and a standalone VM-22 reserve as of the Retrospective Adoption Date, unless the company provides a reasonable rationale for not performing the calculation. The rationale shall describe why the calculation would not provide meaningful information or would impose effort disproportionate to the relevance of the block to the company's retrospective adoption decision. Such rationale may consider, among other matters, the size, materiality, and/or closed-block status of the business.

4. For each Retrospectively Adopted Block, the company shall provide an attribution analysis that reconciles the Pre-Adoption Reserve to the VM-22 reserve and identifies and explains all material

drivers of the difference. The attribution analysis may include:

a. Differences in reserve methodology;

b. Starting asset selection and asset allocation;

c. Asset yield and reinvestment assumptions;

d. Policyholder or contract holder behavior assumptions;

e. Mortality or longevity assumptions;

f. Expense assumptions;

g. Assumption margins;

h. Reinsurance;

i. Treatment and allocation of IMR or PIMR, including any negative IMR amount, as applicable;

j. Aggregation; and

k. Other material drivers.

5. The level of granularity used in the attribution analysis shall be sufficient to identify and explain the material drivers of the reserve change without requiring immaterial analyses that do not provide meaningful additional information.

6. The company shall provide key risk and economic metrics sufficient to place the reserve impact in the context of the underlying risk profile of the business. Such metrics shall include, as applicable:

a. Asset and liability duration;

b. Asset yield;

c. Interest rate sensitivity;

d. Sensitivity to other material assumptions;

e. The level and impact of margins;

f. A description of the economic scenarios materially contributing to the reserve result; and

g. Any other metrics used by the company to evaluate the principal drivers of the reserve change.

7. Where the difference between the Pre-Adoption Reserve and the VM-22 reserve, or an individual driver of such difference, is material, the company shall perform sensitivity testing sufficient to distinguish the extent to which the difference results from:

a. Changes in underlying economic conditions or economic assumptions;

b. Differences in insurance assumptions; and

c. Differences in reserve methodology.

8. The company shall provide a narrative describing the anticipated impact of retrospective adoption on the company's asset adequacy analysis or other cash-flow testing applicable to the business. This narrative should include, where applicable, impacts on AG-53 and/or AG-55 analyses.

Guidance Note: *The Pre-Adoption Reserve and VM-22 reserve comparisons required by this Section are intended to be performed as of the same valuation date so that the effect of the change in reserve framework can be distinguished from changes arising solely from the passage of time or changes in economic conditions.*

E. Aggregation Analysis

1. All analyses under this Subsection shall reflect the aggregation requirements and limitations of

Section 3.F, including the applicable Reserving Categories, model segments, and requirements governing aggregation of the Payout Annuity Reserving Category and Accumulation Reserving Category.

2. For each Retrospectively Adopted Block, the company shall separately calculate the impact of aggregating that block with Existing VM-22 Business, without including other Retrospectively Adopted Blocks in the calculation.

3. The company shall calculate the aggregate reserve after combining all Retrospectively Adopted Blocks with Existing VM-22 Business and shall quantify the resulting aggregation impact.

4. The company shall calculate the reserve assuming all Eligible Retrospective Blocks are valued under VM-22 and aggregated with Existing VM-22 Business to the extent permitted under Section 3.F, whether or not all such blocks are proposed for retrospective adoption. A company may omit one or more Eligible Retrospective Blocks from this calculation if the company provides the rationale described in Section 14.D.3.

5. If aggregation occurs across the accumulation and payout reserving categories, the company shall provide commentary on any impact, or lack thereof, on the aggregation benefit that is due to the cash surrender value floor.

6. The company shall explain material differences among:

   a. The sum of the standalone VM-22 reserves for the Retrospectively Adopted Blocks;

   b. The results of adding each Retrospectively Adopted Block individually to Existing VM-22 Business;

   c. The result of aggregating all Retrospectively Adopted Blocks with Existing VM-22 Business; and

   d. The result of applying VM-22 to all Eligible Retrospective Blocks.

7. The company shall provide descriptive information explaining its decision to retrospectively adopt or not retrospectively adopt each Eligible Retrospective Block, including an explanation of any material reserve decrease arising from the blocks selected for retrospective adoption.

F. Starting Assets and Asset Allocation

1. For each Retrospectively Adopted Block, the company shall provide a reconciliation of the assets supporting the block immediately prior to the Retrospective Adoption Date to the starting assets used in determining the VM-22 reserve.

2. The company shall describe the methodology and rationale used to allocate assets among:

   a. Retrospectively Adopted Blocks;

   b. Existing VM-22 Business; and

   c. Business not valued under VM-22.

3. The company shall demonstrate that the asset allocation used for purposes of VM-22 is consistent with the company's actual asset management practices and, where applicable, with the asset allocation used in the setting of non-guaranteed elements.

4. The company shall demonstrate that assets supporting Retrospectively Adopted Blocks have not been counted simultaneously as supporting other business for purposes of a principle-based valuation or other reserve analysis.

5. The company shall provide descriptive statistics regarding the economic risk position of the assets

allocated to Retrospectively Adopted Blocks and, where material, the residual general account following such allocation. Such information shall include, as applicable:

a. Effective duration;

b. Interest rate risk metrics;

c. Market value and book value;

d. Asset yield;

e. Market value by issue year or weighted average life;

f. Implied net spread or other measure of asset yield relative to the cost of funds; and

g. The allocation of IMR or PIMR, including any negative IMR amount, as applicable.

6. The company shall provide an analysis of movements in assets allocated to the Retrospectively Adopted Blocks in connection with the election. Material movements beyond routine acquisition and disposition activity shall be identified and explained.

7. The company shall perform sensitivity testing using one or more reasonable alternative starting asset allocations, such as a pro rata allocation of the relevant general account assets or an appropriate benchmark starting portfolio, if such testing is necessary to demonstrate that the starting asset selection does not materially or inappropriately influence the VM-22 reserve.

8. To the extent applicable, the company shall provide descriptive information regarding the assets selected for and excluded from the VM-22 calculation using asset classifications or other information consistent with Actuarial Guideline LIII, including Net Market Spread and Guideline Excess Spread where available. The company shall describe the basis for including or excluding material asset classes and the manner in which material complex assets are valued and modeled.

G. Reinsurance

1. All requirements of Section 5 shall apply to Retrospectively Adopted Blocks.

2. The company shall identify all material reinsurance agreements applicable to each Retrospectively Adopted Block and shall describe the impact of retrospective adoption on the treatment of such agreements under VM-22.

3. The company shall identify any existing reinsurance agreement for which collateral requirements or collateral levels are expected to be materially affected by the retrospective adoption of VM-22, with particular identification of arrangements subject to Actuarial Guideline LV.

4. For any agreement identified pursuant to Section 14.G.3, the company shall describe:

   a. The nature of the expected change in collateral requirements;

   b. The relationship of the change to the change in statutory reserves; and

   c. Any material effect on the pre-reinsurance-ceded or post-reinsurance-ceded reserve results.

5. The reserve impact and attribution analyses required by this Section shall separately identify material effects arising from reinsurance.

H. Documentation and Ongoing Reporting

1. The analyses and documentation required by this Section shall be prepared under the direction of the qualified actuary assigned responsibility for the applicable groups of contracts pursuant to VM-G.

2. The documentation submitted for regulatory non-objection shall be sufficient for another actuary qualified in the same practice area to understand:
   a. The blocks eligible for retrospective adoption;
   b. The blocks selected and not selected;
   c. The reserve impact of the election;
   d. The principal assumptions and methods underlying the analysis;
   e. The effect of aggregation;
   f. The basis for the starting asset allocation;
   g. The sensitivity analyses performed; and
   h. The conclusions reached by the company regarding election or non-election of blocks of business.
3. For the valuation year in which the election is implemented, the PBR Actuarial Report required by VM-31 shall identify each Retrospectively Adopted Block and shall include, or clearly reference, the material results of the analyses required by this Section, including:
   a. Reserve comparisons;
   b. Attribution analysis;
   c. Aggregation analysis;
   d. Key risk and economic metrics;
   e. Sensitivity testing;
   f. Starting asset and asset allocation analysis;
   g. Reinsurance and collateral impacts; and
   h. The anticipated impact on cash-flow testing.
4. For each of the four annual valuation dates following the Retrospective Adoption Date, the company shall provide in the PBR Actuarial Report an analysis of the material changes in the VM-22 reserve attributable to the Retrospectively Adopted Blocks on a standalone basis. Such analysis shall identify and explain the principal drivers of change, including material changes in:
   a. In-force business;
   b. Economic conditions;
   c. Assumptions and margins;
   d. Methodology;
   e. Asset strategy or asset allocation;
   f. Reinsurance; and
   g. Aggregation.
5. The standalone reporting required by Section 14.H.4 shall be provided notwithstanding that a Retrospectively Adopted Block is aggregated with other VM-22 business for purposes of determining the reported aggregate reserve.
6. After completion of the reporting period specified in Section 14.H.4, Retrospectively Adopted Blocks shall be subject to the same ongoing reporting requirements as other business valued under VM-22, unless otherwise required by the domiciliary commissioner.
7. The company shall retain the analyses and supporting documentation required by this Section in

accordance with the applicable documentation retention requirements of VM-31 and VM-G.

Thank you for your consideration of these comments. Please contact Marie Fabienne Amisial (Amisial@actuary.org), the Academy's policy project manager, life, if you have any questions or would like to discuss these comments further.

Sincerely,

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