**MEMORANDUM**

TO: Ben Slutsker, Chair of the VM-22 (A) Subgroup

 Elaine Lam, Vice Chair of the VM-22 (A) Subgroup

FROM: Rachel Hemphill, Chair Representative of the Life Actuarial (A) Task Force

 Craig Chupp, Vice Chair Representative of the Life Actuarial (A) Task Force

DATE: April 3, 2025

RE: Request for VM-22 Enhanced SPA Disclosures and Minimum Standards for Supporting Documentation when a VM-22 ASPA is Indicated

At its Mar. 12 meeting, the VM-22 Subgroup voted, by a 6-4 margin, to proceed with a disclosure approach for the VM-22 SPA, unlike the binding SPA in VM-21. As documented in the meeting minutes, reasons given by the ACLI supporting the disclosure approach included the diversity of products under VM-22, ensuring hedging is incentivized, and consistency with the reinsurance AAT work of LATF, given the significance of VM-22 products for that work. Cheung (IL), who voted in favor of the disclosure approach, noted that the disclosure requirements would need to be enhanced, if a disclosure approach were adopted. The ACLI agreed to work with the subgroup on language to ensure disclosures were adequate to support company assumptions when the company was not posting additional reserves when an ASPA would have been indicated.

During the March 22nd LATF meeting, Cheung (IL) clarified that his comments during the Mar. 12 call were that the subgroup should only pursue a disclosure approach for VM-22 if there was substantially enhanced reporting on the SPA in VM-22, similar to the prior surveys conducted on the SPA for VM-21. This request from LATF to the VM-22 Subgroup is to ensure that a disclosure approach is not pursued without satisfying the conditions that were stated by members as being necessary to pursue that option. Without the intent of regulators to pursue this enhanced disclosure path, and the ACLI agreement to support it, the vote count apparently would have led to the opposite conclusion on this issue. During the March 22nd LATF meeting, multiple regulators including Eom (NJ) and Slutsker (MN) noted that the framework and disclosure decision should be reevaluated in three years, and if the disclosures regulators were receiving were inadequate, then the disclosure decision could be revised.

Another issue raised by regulators is to ensure that the SPA is not perceived as a safe harbor for company assumptions.

LATF directs the VM-22 Subgroup to:

1. Require an attribution analysis, individually covering all material drivers and a residual impact, between the SR and SPA whenever an ASPA is indicated.
2. Require an attribution analysis, individually covering all material drivers and a residual impact,  between the SR and SPA for all companies at least every 3 years.
3. Clarify that if an ASPA is indicated and the company is not strengthening their reserves in response to the SPA result, they need to provide support that the material drivers of the difference are due to company assumptions that can be supported based on reliable, relevant, and credible company data.
4. Reiterate that the SPA is not a safe harbor.

Potential language to add to VM-22 to accomplish these four items is below. This is provided solely as a starting point for the VM-22 Subgroup, and the subgroup is encouraged to have robust discussion on ensuring that the predicates underlying the Mar. 12 vote are satisfied.

**Language for VM-22:**

Where an Additional Standard Projection Amount is indicated, the company should strengthen the assumptions and/or margins used for the SR until an ASPA would no longer be indicated, unless the Company can show that the difference between the SR and the SPA can be attributed to differences between the assumptions prescribed for the SPA and the company assumptions, for assumptions where the company assumption is based on company experience data that is reliable, relevant, and credible.

However, the SPA disclosure is not a safe harbor. An ASPA not being indicated does not imply that the company does not need to strengthen the assumptions and/or margins used for the SR.  The Company should have robust support for the development of all company assumptions and margins.

**Language for VM-31:**

Where an ASPA is indicated and the Company can support not strengthening the assumptions and/or margins used for the SR until an ASPA would no longer be indicated, the Company should provide an attribution analysis between the SR and the SPA, individually covering all material drivers and a residual impact. For any material drivers, support should be provided that the Company assumption is based on Company experience data that is reliable, relevant, and credible.

Where an ASPA is not indicated, the Company should provide an attribution analysis between the SR and the SPA, individually covering all material drivers and a residual impact, at least every three years. For any material drivers, support should be provided that the Company assumption is based on Company experience data that is reliable, relevant, and credible.

**Guidance Note:** The VM-22 Subgroup andLATF will be reevaluating the decision to make the SPA a disclosure within three years. The strength and reliability of the SPA disclosures, including the attribution analysis, in initial years will be a key consideration for that reevaluation.

If you have any questions, or would like to further discuss, please contact the Life Actuarial (A) Task Force chair or vice chair (Rachel Hemphill or Craig Chupp), or NAIC staff Scott O’Neal (soneal@naic.org).