



June 20, 2025

Philip Barlow
Chair, Life RBC (E) Working Group
National Association of Insurance Commissioners

Peter Weber
Chair, Variable Annuities Capital and Reserve (E/A) Subgroup
National Association of Insurance Commissioners

Re: LRBCWG VACRSG Exposure 050725 with Exposure Questions

Dear Chair Barlow and Weber:

On behalf of the Variable Annuity Reserves and Capital Subcommittee (the Subcommittee) and the C-3 Subcommittee of the American Academy of Actuaries,¹ we appreciate the opportunity to provide comments to the Life RBC (E) Working Group and Variable Annuities Capital and Reserve (E/A) Subgroup regarding LRBCWG/VACRSG exposure that requested comments until June 23, 2025.²

We appreciate the NAIC's continued leadership in updating the generator of economic scenarios (GOES) and its subsequent impacts to various capital frameworks. Because the GOES under consideration differs materially from the existing AIRG generator, the Subcommittee agrees that thoughtful recalibration of the Conditional Tail Expectation (CTE) confidence level and related scalars is essential to preserve consistency with current prudential objectives. Additionally, the C-3 Subcommittee is in the process of finalizing a set of recommendations³ to align and harmonize C-3 Phase I and Phase II methodology. The current proposed set of recommendations includes the adoption of GOES, but until the recommendations are final and potential field testing concluded, there is no additional comment at this time on the capital metric or number of scenarios to be used.

We have the following recommendations on C3 Phase II in relation to changes to the scalar and CTE level.

Recommendation on Scalar

The Subcommittee recommends retaining the 25% scalar applied to the C3 Phase II charge.

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.

² [Life RBC \(E\) Working Group and Variable Annuities Capital and Reserve \(E/A\) Subgroup Exposure 5/8/25; NAIC; May 8, 2025.](#)

³ [C-3 Alignment, Part II.](#)

The current scalar of 25% was developed during VA reform. The Oliver Wyman³ QIS II Public report from February 12, 2018, highlights the following reasons for the 25% scalar:

Oliver Wyman ultimately decided to set the scalar applied to the full C3 calculation to 25%, as:

- i. The scalar determines the level of voluntary reserves that can fully eliminate the required capital for market risk – i.e., the C3 charge;*
- ii. We believe that, to preserve the meaningfulness of the RBC ratio in judging the financial health of a company and to identify weakly capitalized insurers, regulatory prudence should require the C3 charge to remain non-zero until a company's funding level for its VA portfolio is equivalent to a typical capitalization target for a healthy US life insurer;*
- iii. As a 400% Company Action Level RBC ratio is the typical target capitalization level for US life insurers today, setting the scalar at 25% would ensure that voluntary reserves would not eliminate the C3 charge until the funding level for the VA portfolio effectively matches a 400% RBC ratio.*

We reviewed this reasoning and recommend keeping the scalar at 25% as the above reasons still apply despite a change in generator of economic scenarios. The scalar would continue to align with target capitalization levels, removes the incentive to post voluntary reserves, and preserves hedging incentives.

Recommendation of CTE Level

Similar to the scalar, we reviewed the Oliver Wyman report as a starting point:

Hence, Oliver Wyman decided on the recommended Tail CTE Amount in the following manner:

- i. **Primary decision criterion:** we judged that the Tail CTE Amount should be selected in a manner such that hedging reduces the total funding requirement of the portfolio....*
- ii. **Additional consideration:** as an additional consideration, we assessed the impact of different Tail CTE Amount confidence levels on the overall total funding requirements relative to both the current framework without usage of voluntary reserves and the current framework with voluntary reserve usage.*

We reviewed the above reasoning and determined that this is still a valid approach under the new GOES. Taking this into consideration, the Subcommittee would recommend that the NAIC consider the following in determining an appropriate CTE level under the new generator:

³[*Variable Annuity Statutory Reserve and Capital Reform QIS II Public Report; Oliver Wyman; Feb. 12, 2018.*](#)

- Review the field test results and consider a CTE level, e.g. CTE95, that reduces the total asset requirement if hedging is used. This CTE level should also balance the incentive to use voluntary reserves.
- Verify whether the CTEXX chosen above is roughly equivalent to where CTE98 under the AIRG was. This approach assumes that the 25% scalar applied to CTE98 under the current AIRG produces a sufficient level of capital and would continue to be a reasonable level to target under the new generator.
- Review results on a pre-hedging basis to determine whether CTEXX is at least as great as CTE98 under the AIRG measure. This would also ensure that the CTE metric under the new scenarios are at least as conservative as the current AIRG CTE metric, therefore not decreasing the incentives to hedge.

The Subcommittee acknowledges that field test results may be limited to perform the above assessment. We would recommend leveraging the model office to understand the impacts of above under different starting economic conditions, levels of moneyiness, presence of riders, etc.

If you have any questions or would like to discuss these comments further, please contact [Amanda Barry-Moilanen](#), the Academy's life policy project manager.

Sincerely,

Maambo Mujala
Chairperson, Variable Annuity Reserves and Capital Subcommittee
American Academy of Actuaries

Rick Hayes
Chairperson, C-3 Subcommittee
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