risk&regulatory CONSULTING

Memo

To: Rachel Hemphill, FSA, MAAA, FCAS, Life Actuarial Task Force

From: Patricia Matson, FSA, MAAA, Co-Chief Executive Officer, RRC
Jason Kehrberg, FSA, MAAA, Director, RRC

Date: September 10, 2026

Subject: RRC Comments Regarding VM-20 Spread and Default Methodology Review

Background

The Life Actuarial Task Force (LATF) is requesting comments on the American Academy of Actuaries' *VM-20 Spread and Default Methodology Review*.

RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss them with you and Task Force members.

We appreciate the work LATF and the Academy have undertaken to evaluate whether the current VM-20 methodology continues to provide an appropriate balance among economic realism, prudence, transparency, consistency, and regulatory practicality.

RRC has assisted regulators in reviewing reserve adequacy, asset-intensive products, investment practices, and actuarial models involving a variety of asset classes. Based on that experience, we recognize both the importance and challenge of appropriately reflecting investment risk and return within a principle-based framework.

RRC Comments

RRC generally supports continued evaluation of whether the VM-20 framework appropriately reflects assets whose risk characteristics differ from those of traditional public noncallable corporate bonds.

As LATF considers potential approaches for recognizing additional spread, we encourage equal consideration of the risks associated with earning that spread. Depending on the asset type, those risks may include default risk, liquidity risk, prepayment risk, structural complexity, subordination risk, or other relevant considerations. Recognition of additional spread without commensurate recognition of associated risks could result in reserve outcomes that do not fully reflect the underlying risks supporting policyholder obligations.

We also encourage LATF to consider transparent safe-harbor approaches for fixed income assets other than public non-callable corporate bonds that could provide a practical means of recognizing both additional spread and associated risk offsets. Such approaches may provide a reasonable balance between economic realism, consistency across companies, and effective regulatory review.

Finally, we encourage LATF to preserve the simplicity, transparency, and comparability provided by the current guardrail framework. While improvements in economic realism may be appropriate, the resulting framework should remain practical for both companies and regulators to implement and review.

RRC appreciates LATF's continued work on this important issue and thanks the Task Force for considering these comments.

Thank you for the opportunity to provide comments on this important topic. We can be reached at 860-305-0701/tricia.matson@riskreg.com or 847-769-1035/jason.kehrberg@riskreg.com if you or other members have any questions.