AG 53 GUIDANCE DOCUMENT – YEAR-END 2023

Below is a request for information related to companies' asset adequacy testing that is being sent to each company filing an Actuarial Guideline 53 (AG 53) Report. The request is related to a project of the Valuation Analysis (E) Working Group (VAWG) of the National Association of Insurance Commissioners to review AG 53 analysis. The same confidentiality standards will apply to this information as applied to the Actuarial Opinion and Memorandum (AOM) for VM-30.[i] An Appendix is also included to provide clarifications regarding AG 53.

I. Sensitivity Testing

a. Initial Equity-Like Instruments – For the AG 53 Section 5.A.i(b) requirements related to sensitivity testing annual total returns on equity- like instruments, both initial assets and reinvestments should be included in the test. This is because many equity-like instruments do not have a set contractual expiration and, therefore, tend to be held rather than maturing and being reinvested (which is frequently the case for fixed income investments). The impact of this result will be provided in the Sensitivity Testing tab of the AG 53 reporting templates.

b. Sensitivity Testing Scope – If a company makes a modeling simplification to only reinvest in public, non-callable bonds but actually reinvests in more complex types of assets in real life, then the assumed investment returns in the model must be reduced to the corresponding level of public, non-callable bonds. Alternatively, if the assumed reinvestment returns are not reduced upon making this simplification, then such reinvestment types are not exempt from the sensitivity test or attribution analysis requirements in AG 53. In other words, a simplification cannot be made to call reinvestments "public, non-callable bonds" simply to get exempt from sensitivity testing and attribution analysis requirements unless the assumed returns are appropriately reduced in asset adequacy analysis.

II. Asset Information

a. Projected Portfolio Allocations – Provide the asset allocation at the end of years 5, 10, 20, and 30 in the projection for each asset type shown in the "Projected Allocations" tab of the AG 53 reporting templates, for NY1 level scenario. The purpose of collecting this information is to better understand how projected allocations change as assets are disinvested. In addition, please provide a description of any investment allocation limits assumed in the model for a specific asset class, other than cash or treasuries. For example, if a model assumes equities are sold such that equities do not exceed X% of a portfolio's total dollar amount, then provide a description of such. If there are no investment allocation limits assumed in the model, then please explicitly state that there are no investment allocation limits assumed in the model. In addition, please provide rationale if the model allows for any investment allocations to exceed limits specified in the company's investment policy and/or statutory guidance. Fields to collect this information will be provided in the AG 53 reporting templates. If a model projects portfolio assets at a level less granular than required in the template, please reach out to the chair of the NAIC Valuation Analysis (E) Working Group or the NAIC staff member supporting the NAIC Valuation Analysis (E) Working Group to discuss alternative options.

b. Structured Asset Information by Tranche – Provide information within the "Non-Traditional Assets" tab of the AG 53 reporting templates by the position in the capital structure for different exposures and rating agency credit rating for non-agency MBS, and ABS initial assets. For CLOs, provide this information as well as the split for securities with underlying assets that are broadly syndicated loans vs. middle market loans. For MBS, note any interest-only securities. The fields for collecting this information will be provided in the AG 53 reporting templates. Note that multiple columns are provided to capture this data by asset type, including two columns to be named by the company to separately itemize material amounts of ABS assets.

c. Schedule BA and Feeder Funds – On the "Non-Traditional Assets" tab in the AG 53 reporting templates, please provide a description of assets held on Schedule BA within the Annual Statement, along with a table that shows subcategorization of Schedule BA assets by amounts and percentage of total Schedule BA assets (if unable to fit in the worksheet comment box, then either add an additional tab or worksheet with this information or include it in the AG 53 report). For Collateral Loans, in the AG 53 report, disclose the assets pledged as collateral and the source for valuation to ensure compliance with statutory accounting principles. In addition, describe any feeder funds held in the company portfolio, including each fund's asset type category, and the schedule and line on the Annual Statement where such funds are located. For the purposes of this request, feeder funds can be defined as one of several sub-funds that put all of their investment capital into an overarching umbrella fund, known as a master fund, for which a single investment advisor handles all portfolio investments and trading. This two-tiered investment structure of a feeder fund and a master fund is commonly used by hedge funds as a means of assembling a larger portfolio account by pooling investment capital. Such funds offer flexibility/customization with respect to different investors without impacting the trading of the investment portfolio. This customization may include tax status (taxable/nontaxable), ERISA status, different fee models, and/or different leverage amounts. It may also be customized to facilitate capital efficiency for regulated investors.

d. Payment In Kind – On the "Non-Traditional Assets" tab in the AG 53 reporting templates, provide commentary for which assets the company identifies as "payment in kind" (including any in which interest is not currently paid), or those without specified cash flows. For any assets that are identified as "payment in kind", provide commentary on the liquidity risk of such assets and how they are valued in the model. Also include any assets in which schedule payments of principal and/or interest are not fixed and not otherwise tied to a typical interest rate index (sometimes referred to as "Structured Notes").

e. Non-unitized Separate Accounts – On the "Company Information" tab in the AG 53 reporting templates, provide the total amount of initial assets held in non-unitized separate accounts. This includes Index-Linked Variable Annuities (ILVAs), Registered Index-Linked Annuities (RILAs), and Pension Risk Transfer (PRT) contracts with separate accounts.

III. Reinsurance

a. ASOP 11 Disclosures – To satisfy the requirements in AG 53 Section 4.F, please explicitly provide each disclosure specified within Section 4.1 of ASOP 11 for arrangements with counterparties that do not undergo asset adequacy analysis (e.g., captives and foreign jurisdictions). If a company provides a summary of cash flow testing gross of any reinsurance (i.e., pre-reinsurance-ceded) in the AOM, then disclosures specified within Section 4.1 of ASOP 11 do not need to be provided within the AG 53 Report (note this would not exempt companies from following ASOP 11, but for the purposes of the AG 53 report, the ASOP 11 disclosures would not need to be explicitly provided for the specified arrangements).

IV. Investment Grade Net Spread Benchmark

a. Net Spread Benchmark values – At a date to be determined, the values for initial assets in the table in Appendix I of AG 53 may be considered for adjustment based on Table F under VM-20 Current Year Tables on the NAIC website. Please follow the proceedings of the Life Actuarial (A) Task Force (LATF) for discussion on this topic.

V. AG 53 Report and Templates

a. AG 53 Report Structure – AG 53 Reports should be provided in the structure of providing responses to each subsection within Sections 4 and 5 of AG 53, noting that the responses to Sections 4.A and 5.A can refer to the submitted templates but also should include additional discussion and commentary.

b. References to Full Memorandum – If the AG 53 Report relies on the AOM to provide responses to any of the subsections within Sections 4 and 5, the applicable sections of the AOM should be referenced. If the AG 53 Report references the AOM, then the AOM and supporting documentation must be provided to the VAWG through the receiving state.

c. Template Standardization – Starting at 2023 year-end, submissions of the prescribed templates are required and no edits to the structure of the templates are permitted. The templates are now password protected for cells that are not intended to be changed. No new columns or rows should be added. Comment boxes should not be moved. The asset type names should not be modified. The company shall make its best effort to map the assets to the asset types specified in the template. Except for column headers that are intended to be customized by the company (e.g., the column header in cell F3 of the "Non-Traditional Assets" template tab can be changed from "[Material Other ABS #1]" to a description of an ABS asset type that has been itemized in column F of the same template tab), titles should not be changed. In addition, the template should be submitted as an Excel template (rather than a pdf). If necessary for a company's operations, an unlocked version of the template will be provided upon request. However, the submitted templates shall have no deviations from the official password protected templates, as specified above, unless provided permission to do so by the chair of the NAIC Valuation Analysis (E) Working Group or the NAIC staff member supporting the NAIC Valuation Analysis (E) Working Group.

d. Granularity of Templates – The company has the option to provide separate templates for each segment (i.e., portfolios and/or lines of business). If the company chooses to submit segment results, then all applicable template tabs should be completed for each segment. Regardless of whether segment results are provided, all companies must submit a single template in aggregate for the entity, across all portfolios, business lines, and segments, with all applicable template tabs completed.

e. Template Updates – The templates have been updated to reflect Sections I.a, II.a-c, and V.c-d of this Guidance Document. The templates are available on the LATF web page under the "Documents" tab.

Appendix: Clarifying Items

i. AG 53 Applicability – This guideline applies to all blocks of business for which the Actuarial Opinion and Memorandum Requirements (i.e., VM-30) apply, subject to the requirements in Section 2 of AG 53 on scope. No types of business can be excluded from the AG 53 requirements other than those explicitly stated in the scope section. Similarly, all general account and non-unitized separate account assets supporting liabilities in Exhibits 5, 6, 7, and 8 of the Annual Statement that are reflected in the asset adequacy analysis (using cash-flow testing and other methods) should be reported to the Asset Summary template.

ii. 3Q Valuation Date – For the purposes of complying with AG 53, either a 9/30 or a 12/31 date may be used.

iii. Non-Unitized Separate Accounts – For the purposes of the scope section in AG 53, the definition of a non-unitized separate account is one in which benefits are declared by the insurer and are not directly related to the assets held in the separate account, such as a registered indexed-linked annuity. This contrasts with a unitized separate account, in which benefits are expressed in units whose value varies directly with the value of the separate account, such as a variable annuity.

iv. Assets Supporting Non-US Business – The scope of AG 53 includes business written by US entities to non-US contractholders. AG 53 does not apply to any business not within the scope of the Actuarial Opinion and Memorandum Requirements (i.e., VM-30).

v. Template Units – All submitted AG 53 template fields expressed in dollar amounts must have units reported in millions, as noted on the templates.

vi. Section 4a Template Yields vs. Spreads – The Section 4a AG 53 templates must report the full asset yield, rather than only the investment spread over the treasury rate. For equity-like instruments, the total return (including price appreciation and dividend income) should be reported rather than only dividend income.

vii. Asset Summary Template – An asset summary for all portfolios and applicable business in aggregate must be reported. In addition, if separate templates for specific lines of business or portfolios are submitted for the other tabs, then an asset summary for each of those lines of business or portfolios should also be submitted.

viii. Asset Mapping – If an asset cannot be mapped to one of the named asset types, it should be mapped to "Other – Not Covered Above," and a description should be provided in the related comment box.

ix. Net Yield Components – All margins or Provisions for Adverse Deviations used to arrive at an assumed net asset yield should be included in the "Other" column in the Section 4a AG 53 reporting templates. Margins should also be described in the template footnote.

x. Template Consistency – Data should be reported in a consistent manner across each template regarding categorization of asset types.

xi. Investments Expenses (Fees) – Regarding AG 53 Section 4.E, commentary should be included in the AG 53 Report to explain how the assumed investment expenses are commensurate with the expected expenses in light of the complexity of the assets. To clarify, if an asset type is more complex, please describe whether this results in a higher investment expense assumption when compared to a less complex asset type and, if not the case, please provide rationale. Note this disclosure requirement does not refer to the allocation process of investment expenses to business lines, but rather how the level of the investment expense assumptions relates to the complexity of the assets.

xii. Non-Publicly Traded Assets – Regarding AG 53 Section 4.D, the information provided in the AG 53 Report should be itemized appropriately for purposes of readability and review. More specifically, this refers to describing the step-by-step process to calculate and validate the valuation of non-publicly traded assets in a transparent manner in the AG 53 Report for regulators to review.

xiii. Surplus Notes, Bond ETFs, and Preferred Stock ETFs – For surplus notes, bond ETFs, and preferred stock ETFs, companies should treat these as non-equity-like instruments and report these items separately in the "Other – Not Covered Above" row (with an associated description in the textbox at the bottom of the "Asset Summary" tab). For sensitivity testing, apply all surplus notes (whether initial assets or reinvestments) to the requirements in Section 5.A.i.(a) consistent with "assets other than equity-like instruments". However, if there is an immaterial amount of surplus notes, bond ETFs, or preferred stock ETFs held, then these assets may be grouped in the asset type row most closely associated with such assets and follow the accompanying AG 53 requirements for that asset type.

xiv. Attribution Analysis – The intent behind the attribution analysis is to provide companies an opportunity to explain the source that they believe drives any excess spreads beyond the benchmark. Especially to the extent assumed excess spreads are higher, companies are expected to reflect considerable thought in the attribution regarding the range of risks. If it appears not a lot of thought is reflected in the attribution analysis, regulators may assume the company and/or actuary does not understand why they are assuming investment returns significantly in excess of the benchmark.

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[i] AG 53 provides uniform guidance for the asset adequacy testing, and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements, and continue to remain confidential in nature.