August 3, 2026

Special Considerations Relating to December 31, 2026 Reserves and Other Solvency Issues

This Special Considerations Letter (Letter) applies to life insurance companies and fraternal benefit societies doing business in New York, and any insurer holding a certificate from the superintendent designating such entity as accredited for the reinsurance of life insurance, annuities, or accident and health insurance, with the exception of non-New York domestic companies that meet the definition of "reinsurers" under the Federal Dodd-Frank Act.

This letter focuses on particular issues relating to actuarial opinions and memorandums and other solvency issues. These considerations are meant to (i) provide instructions on filing, (ii) describe additional tests and documentation standards that insurers should conduct, (iii) provide guidance to appointed actuaries on the analysis they should consider in rendering their reserve adequacy opinions, and (iv) provide companies with insight as to how the New York State Department of Financial Services (Department) views adequacy in preparation for discussions that may occur subsequent to filing the opinion. These considerations have been applied on previous examinations and have sometimes led to the requirement of additional reserves as deemed appropriate in light of company-specific circumstances.

Please note that December 31, 2026 is the formal date upon which the appointed actuary's opinion should be based. Thus, the asset adequacy testing should use data and assumptions required under this Letter (e.g., net spread limit, equity drop and recovery) as of December 31, 2026. As a modeling convenience, the asset adequacy analysis may use data and assumptions as of an alternative date as early as September 30, 2026 with the results adjusted to reflect any changes in asset and liability composition, behavioral assumptions, market conditions and other relevant factors through 12/31/2026. In such case, the results as of an earlier date adjusted to 12/31 must be provided by March 1, 2027 with results based on data and assumptions as of 12/31/2026 provided by June 1, 2027. If 9/30 data is used initially and results are found not to reflect an acceptable process to true up to 12/31, then the use of an earlier testing date will no longer be permitted. This will require the insurer to provide the actual 12/31 results based on the 12/31 testing date by March 1st for future filings.

Please see Item 4, Item 14(c), and the Special Sensitivity Tests section of this Letter for references to the interest rates scenarios.

Reserve Methodology for Certain Universal Life Insurance Products

The reserves held for universal life with secondary guarantee policies that have multiple sets of charges and/or interest credits applied to the shadow account shall be in compliance with §98.9(c)(2)(viii) of Regulation 147 applying the lowest set of minimum premiums and following the guidance from the November 1, 2011 Life Actuarial Task Force Statement, available at the website:

https://content.naic.org/sites/default/files/inline-files/committees_e_emerging_actuarial_issues_related_eaiwg_interpretations.pdf

Actuarial Opinion and Memorandum – Filing Instructions

The 12/31/2026 actuarial opinion and memorandum should be submitted via electronic means. Email submissions should be sent to the Albany Life Bureau. Multiple electronic files are acceptable as long as an index and description of these files are included. The Department has a secure File Transfer Protocol site available for large data transfers should it be needed via the New York State mySend Application. To request access to use the New York State mySend Application or for any questions related to electronic submissions, please send an e-mail to the Albany Life Bureau.

Please note all emails sent via secure email need to be available to the Department for at least 120 days before the contents become unavailable.

To reduce the need for follow-up correspondence, a complete summary of applicable actuarial opinions and certifications should be received via Email by the March 1st filing deadline. See AOM and RBC Checklist. Life RBC C3 Phase I and Phase II analyses should be forwarded by June 15, 2027, along with the appointed actuary's certification and documentation consistent with ASOP 41 relating to Actuarial Communications. The documentation of Life RBC C3 Phase I and Phase II analyses should be at least as thorough as those provided in the Actuarial Memorandum per Section 95.9 of Regulation 126. The Life RBC C3 Phase I and Phase II documentation should be submitted either on a fully standalone basis or may include references to the VM-31 Report with any differences between RBC C3 and the reserves identified within a separate section of the RBC Memorandum.

Per Section 95.10(a)(2) of Regulation 126, prior written approval is required to aggregate the results of asset adequacy analysis across lines of business. Aggregation requests should be sent via email to the Albany Life Bureau. When requesting aggregation please include the following information:

(1) a brief summary of the Company's overall financial condition;
(2) confirmation that positive blocks of business will not be sold;
(3) commentary on the 'stability' of any expected positive results;
(4) confirmation that the same scenarios will be used for all lines;
(5) clarification of impact on anticipated policyholder dividends;
(6) confirmation that results will be shown separately per Regulation 126;
(7) description of what is driving the need for aggregation and the impact on testing results and additional reserves if the separate lines of business needed to be adequate on a stand-alone testing basis;
(8) confirmation that the degree of conservatism in the adequacy testing complies with the NY special considerations letter for 12/31/26 reserves;
(9) description of any planned reserve strengthening;
(10) confirmation that positive results from insulated separate accounts will only be aggregated to the extent they are not needed to meet the insulation requirements of the contract.

Per Regulation 126, the actuarial memorandum is due by March 1st. However, extensions are available upon request and when justified. In any event, all substantive asset adequacy analysis should be completed prior to rendering the actuarial opinion submitted with the annual statement, i.e., prior to the March 1st filing deadline. If an extension is granted, the actuarial opinion still should be submitted by March 1st, accompanied by a brief summary of the results of the asset adequacy analysis, with the actuarial memorandum due by the extension date. The summary of results should contain the numerical results

for each interest rate scenario specified in Section 95.10(d)(1)(i), (ii), (iii) and (iv) of Regulation 126 and the modified scenarios 5, 6 and 7 described in Item 4 for each line of business, as well as an explanation as to how these results were considered in forming the opinion. The summary also should pay particular attention to material changes in assumptions or methodology versus the previous submission. If a material line of business was not subjected to cash flow testing, then the actual type of analysis, numerical results, and conclusions should be explained.

In addition, a Regulatory Asset Adequacy Issues Summary (RAAIS) should be submitted no later than April 1, 2027. The RAAIS should be consistent with that prescribed in Section 3.B of VM-30 of the NAIC Valuation Manual with the summary being based on the analysis done for the New York submission.

Certifications, memorandums and reports required under AG43 are due by March 1st, while those required under VM-21 and VM-31 are due by April 1st, as applicable. Filing extensions for the related memorandum will be granted in similar fashion to the Regulation 126 memorandum discussed above.

For foreign insurers and fraternal benefit societies, the table of liabilities in the Regulation 126 actuarial opinion should be clearly reconcilable to the New York supplement.

Actuarial Opinions per § 95.7 and § 95.8 of Regulation 126

Except as provided by the language recommended in Sections 95.7 or 95.8 of Regulation 126, the actuarial opinion should avoid using wording such as "to the best of my knowledge" or "to the extent practicable" unless such wording is specifically intended to qualify the opinion. The actuarial opinion should not rely on actuarial opinions from other actuaries. Other actuarial opinions should not be attached to the actuarial opinion or included in the actuarial memorandum. Reliance on the "work product" of other actuaries continues to be permitted and will be considered "reliance on the analysis of other experts", which is addressed per §95.8(f). Accordingly, if the appointed actuary relies on the analysis of other actuaries, the appropriate reliance statements should be attached to the actuarial opinion.

If an actuarial opinion or certification is qualified, it should be clearly identified as such. In such cases, the impact should be quantified in the opinion or certification.

If an actuarial memorandum or report includes "Deviation from Standard" wording regarding conformity with the applicable actuarial standard(s) of practice, that fact should be disclosed directly in the related opinion or certification.

Actuarial Memorandum per § 95.9 – Separate Section for Special Considerations

The actuarial memorandum per §95.9 of Regulation 126 should include a separate section that specifically addresses each of the fifteen items enumerated below. References can be made to other sections of the actuarial memorandum as appropriate; however, the separate section should contain all specifically requested data, test results, and related explanations.

(1) Description of Assumptions per § 95.9(b)(1)(vi)

The actuarial memorandum should include appropriate validation of key assumptions to recent actual experience and include justification whenever assumptions used in the asset adequacy analysis are materially different from recent actual experience, particularly when such differences produce more

favorable testing results. Please also see Section 14(a) and Appendix I for additional guidance. In any event, the appointed actuary should ensure that the "moderately adverse conditions" testing requirement has been satisfied.

A description of all substantive assumptions should be provided regardless of the type of asset adequacy analysis, i.e., for gross premium valuation, loss ratio analysis, cash flow testing, etc.

In general, the testing period used for asset adequacy analysis should extend far enough into the future to cover the major portion of the future run out of the liability cash flows, i.e., until an immaterial amount of business remains. Such testing period should be used for single premium deferred annuities in addition to the 10-year testing horizon required by Regulation 126 (unless approved otherwise) with the more conservative result used as the baseline.

For contracts with flexible premiums (e.g., individual flexible premium deferred annuities), an appropriate level of additional contributions consistent with historical experience for the scenario tested should be included, especially in the decreasing interest rate scenarios in order to assess the potential intermediation risk due to minimum interest rate guarantees. This should be included as part of the baseline testing and is not considered a sensitivity test.

With respect to §95.9(b)(1)(vi)*(a)* lapse rates, the actuarial memorandum should clearly identify any blocks of business where testing results are materially lapse supported, explain the rationale for such lapse assumptions and comment on the sensitivity of results if actual lapse rates prove lower than those assumed. Note that the term “lapse” in this Letter and in Regulation 126 refers to both surrenders for value and lapses due to insufficient premiums to keep the policy in-force. For products with relatively attractive interest rate guarantees, lapse rates should be appropriately adjusted downward under particularly low-interest rate scenarios.

Where a lapse-related formula is used within the actuarial memorandum, a chart should accompany the formula specifying the assumed rate for specific cases. Where rates are to be specified for “each duration”, grouping of durations can be performed where rates are very similar within a range of durations. Here are examples of cases where this demonstration is expected:

- For universal life with secondary guarantee business that is reserved using the nine-step methodology stated in §98.9(c)(2)(viii) of Regulation 147, provide the assumed lapse percentage for the case of a level premium payment pattern, level interest rate scenario, for each duration.
- For deferred annuity dynamic lapses, provide the assumed lapse percentage for combinations of credited/competitor rate differences and each duration.
- For variable annuity with guaranteed business, provide the assumed lapse percentage for combinations of in-the-moneyness and duration. For this purpose, the definition of “in-the-moneyness” is the present value of benefits less the cash surrender value. Any programs that encourage surrender of living benefits or death benefits where the surrender value is in excess of the contractual cash value should not be counted as a lapse.
- For long-term care, provide the lapse assumption for each duration.

With respect to §95.9(b)(1)(vi)*(b)* interest crediting rate methodology, the actuarial memorandum should describe actual versus modeling spreads. Where the assumed crediting strategy materially deviates from current company practices, (e.g., modeling spreads not currently being achieved), the impact of continuing current practices should be quantified.

All expenses reported in the Annual Statement should be assigned to acquisition, maintenance, investment, or non-recurring expenses. All expenses, other than truly non-recurring expenses, are to be covered by a model (i.e., self-support and asset adequacy analysis) when validating the valuation year's expenses. For asset adequacy analysis, maintenance expenses should be validated using a top-down approach, by considering overall company expenses and backing out acquisition costs and other costs clearly not necessary to maintain the in-force business. To this end, excluded costs should be clearly justified in light of actual sales production for companies with established marketing platforms. For companies incurring material startup expenses, any excluded startup costs should be clearly justified in light of the expected volume and profitability of new business resulting from such expenditures.

Any expenses allocated to subsidiaries must be reasonable and should not exceed the revenues of the subsidiary to which they are allocated on an ongoing basis. Any subsidiary expenses in excess of revenues should be added back to the total expenses of the company for purposes of determining the amount to be included in CFT.

The analysis above must be included with, or provided as part of, the supporting Actuarial Memorandum.

(2) Asset Assumptions per § 95.9(b)(2)

Reinvestment and disinvestment assumptions should be consistent with actual company practice. If reinvestment or disinvestment assumptions differ from current or recent past company practice, the actuarial memorandum should explain and provide a justification.

An explanation should be included within the actuarial memorandum for any inconsistencies between the asset allocations in the modeling with actual company practice or the manner in which investment income is allocated by line of business for annual statement reporting purposes. In addition, please explain whether or not the Company is required to have an approved asset segmentation plan on file with the Department per Regulation 33. If the Company has an approved plan, please indicate the date it was approved.

For cash flow testing models, the appointed actuary should be cognizant of which assets are pledged or encumbered and, therefore, may not actually be available for sale during the projection period (e.g., FHLB loans).

If in cash flow testing, some of the projected future taxes are based on the recognition of income or expenses according to tax accounting rather that statutory accounting rules, then the portion of the company's total admitted deferred tax asset (as of the valuation date) that pertains to the timing differences (between statutory and tax accounting) shall be included as part of the starting assets. The total admitted deferred tax asset is the amount admitted according to statutory realization rules (and subject to other limitations) plus the amount that offsets any deferred tax liability. The amount of deferred tax asset included as a starting asset may be reduced by the portion of the deferred tax liability for which the tax timing items that give rise to it are reflected in the cash flow testing.

The asset adequacy analysis should assume a return on investment for general account assets having substantial volatility of returns (e.g., common stock, real estate, hybrids with significant common stock characteristics, foreign currency risks, Schedule BA assets, private equity) of an immediate 20% drop in value, followed by a 5.5% annual return (before deduction of investment expenses) starting at the beginning of the second projection year. Such drop and recovery shall not apply to any fixed income asset

reported at amortized cost. The memorandum should clarify which assets were subject to this drop and recovery and which were not, and provide the annual statement carrying value for each major asset category. This drop and recovery should be performed if assets with substantial volatility of returns are supporting general account liabilities. In addition, if assets having substantial volatility of returns are assumed to be purchased in the future, the asset should be assumed to follow the same 20% drop and 5.5% recovery pattern as stated above, starting at the date of purchase of the asset. Private equity should be treated the same as common stock.

The actuarial memorandum must include disclosures on how the market value of private equity, private credit, and other illiquid assets have been determined, including but not necessarily limited to: who determines the prices; what sources of data or reference markets are used; how frequently the prices are updated; the last time they were updated; how the prices have changed over the last year and how that compares to the change in prices for similar public assets. The actuarial memorandum must also disclose how transaction costs, including bid-ask spreads, have been reflected for sales and purchases.

For any asset where a reasonable estimate of the current market value has not been, or cannot be, determined, the market values used in CFT at time of sale along a scenario should be haircut by an amount reflecting any staleness and/or uncertainty in the valuation or justification must be provided as to why a haircut was not used to determine the relevant market values. An explanation of the methodology used to determine the value of the asset, and the amount of any haircut must be included in the actuarial memorandum.

Similarly, a higher bid-ask spread must be assumed for illiquid assets, or justification must be provided as to why a higher bid-asked spread was not assumed, as compared to those for similar liquid assets, when illiquid assets are sold along a scenario. An explanation of the methodology used to determine the higher bid-ask spread must be included in the actuarial memorandum.

Asset adequacy analysis for all variable annuity and variable life insurance products (including that for any guaranteed living benefits, guaranteed minimum death benefits, and/or recoverability testing of CARVM allowance) should assume the return described above (before deduction of mortality and expense (M&E) charges and investment expenses) on equity funds and other funds with substantial volatility of returns. A consistent adjustment should be made to expected returns for fixed income funds having equity or other volatile return components (e.g., balanced funds). If projected gains on variable annuities are used to offset projected losses on other business, this drop and recovery must be performed for variable annuity projections in conjunction with the cash flow projections under each interest rate scenario for such other business. This drop and recovery should likewise be performed when aggregating life products held in separate accounts with life products held in the general account.

Anticipated returns for bonds and other fixed income funds should be consistent with the duration and quality of the underlying assets, with due regard for how fund assets might be expected to perform under each interest rate scenario. The assumption used should be discussed in the actuarial memorandum, along with justification that the scenarios used are sufficiently robust to gauge the expected impact of fund volatilities in a manner consistent with the underlying interest scenarios.

Some companies selling variable life or variable annuity products may have made revenue sharing arrangements with the entity responsible for providing investment or other types of services that make payments to the company (or to one of its affiliates). Such payments are typically in exchange for

administrative services provided by the company (or its affiliate), such as marketing, distribution and recordkeeping. When income attributable to revenue sharing is included in the asset adequacy analysis, the revenue sharing arrangements should be fully explained and justified. In addition, any revenue sharing income that is not contractually guaranteed to the insurer and any successor must be excluded.

The following items need to be included in order to be considered guaranteed:

- The payment must be guaranteed in the contract. The amount to be paid may not be subject to any discretionary changes.
- The payment must be contractually guaranteed to the insurer and its liquidator, receiver, and statutory successor.
- The agreement may not be terminated for any reason. If an agreement includes language that allows either party to terminate the agreement on X days' notice without penalty, then it must also include language that states the payments will continue as long as the funds are invested and the company provides the administrative services even if the agreement is terminated.

Other things to consider:

- If considered guaranteed, then the company may only use an amount up to the actual costs incurred by the company.
- We do not consider 12b-1 fees as guaranteed.
- The items listed above are things that must be included. Additional items may be noted during a review that may cause the agreement to be considered non-guaranteed and would be discussed at that time.

(3) Presentation of Results

The results from asset adequacy analysis should be shown separately by major product categories within a line of business (*e.g.*, allocated vs. unallocated for group annuities, SPDA vs. FPDA vs. payout annuities for individual annuities, Term vs. UL vs. SPWL vs. Whole Life for life insurance). For this purpose, "major" product categories can be interpreted to mean categories where the asset adequacy results are material relative to results shown for the combined products. Professional judgment can be used to decide appropriate delineation, but the rationale should be explained and justified (*e.g.*, Term combined with UL because Term is immaterial).

For each interest rate scenario, the present value of the ending "market value" surplus should be shown. Such present values should be consistent with the interest rate path for each scenario, with totals provided for each major product category and each major line of business (i.e., Life, Health, Annuity). Per Section 95.10(i), ending "market value" amounts also should be shown. For aggregation purposes, the common reference date shall be the valuation date, as required per Section 95.10(a)(2).

For business that is subject to Regulation 56, standalone asset adequacy analysis should be performed for at least each major product category, (*e.g.*, Long Term Disability (LTD) vs. Long Term Care (LTC)).

For each major product category, the documentation should be clearly articulated so that the reviewer can readily understand which assets support which liabilities, how positive net cash flows are reinvested, and how any negative cash flows are handled in asset adequacy analysis and Life RBC Phase 1 analysis.

(4) Clarification of Interest Rate Scenarios per § 95.10(d)

The yield curve for the interest rate scenarios should not be normalized; however, additional scenarios may be provided at the discretion of the appointed actuary (*e.g.*, normalized scenarios, inverted yield curve).

In addition to the interest rate scenarios specified in Section 95.10(d)(1)(i), (ii), (iii) and (iv) of Regulation 126, the Company must run the following modified scenarios:

Scenario 5 (Modified gradual down): projected rates decreasing over ten years and then level. The amount of the decrease is set equal to 0.40% unless the prior year's projected rate is 2.50% or less at which point the decrease in rates is set equal to 0.10%.

Scenario 6 (Modified down/up): projected rates decreasing each year over five years and then increasing the same amounts as the decrease in rates each year for five years to the original level at the end of ten years and then level. The amount of the decrease is set equal to 0.80% unless the prior year's projected rate is 2.50% or less at which point the decrease in rates is set equal to 0.20%.

Scenario 7 (Modified pop-down): An immediate decrease in rates and then level. The amount of the decrease is equal to 2.50% if rates are greater than or equal to 5.0%. If rates are below 5.0% but greater than 2.50%, then the drop is reduced to the starting rate less 2.50% plus 25% of the difference between 5.0% and the starting rate. If rates are less than or equal to 2.50%, then the drop is equal to 0.625%.

Please note, the various thresholds mentioned above (e.g., 2.5% in the modified gradual down scenario) apply to each tenor and could result in an uneven shift of the yield curve.

Pop-up and pop-down scenarios should occur immediately (i.e., on the valuation date).

(5) Floor Rates on Decreasing Interest Rate Scenarios per § 95.10(d)

For purposes of determining the floor rates on the decreasing scenarios (for both the modified and unmodified scenarios), parallel shifts or proportionate shifts may be used, but a consistent set of scenarios should be employed across all lines of business (i.e., do not use parallel shifts for one type of business and proportionate shifts for another).

For decreasing scenarios, the full amount of the prescribed change should occur each year until the floor rate is reached, regardless of whether parallel or proportionate shifts are being used.

For parallel shifts: Floor rates should equal the beginning rate less one half the 5-year Treasury rate. Floor rates should not be less than zero.

Example:
If the 5-year initial Treasury rate = 2.86%, 3-month initial Treasury rate = 1.24% and 10-year initial Treasury rate = 3.97%, then the 3-month floor rate would be 0% since 1.24% - 1.43% = <-.19%>, while the 10-year floor rate would be 2.54% = 3.97% - 1.43%.

For proportionate shifts: Floor rates for the 5-year Treasury rate should equal one half the 5-year Treasury rate. Floor rates for other points on the yield curve should be one half the initial rate for that point on the yield curve.

Example:
If the 5-year initial Treasury rate = 2.86%, 3-month initial Treasury rate = 1.24% and 10-year initial Treasury rate = 3.97%, then the 5-year floor rate would be 1.43% = .5 x 2.86%, the 3-month floor rate would be .62% = .5 x 1.24%, while the 10-year floor rate would be 1.99% = .5 x 3.97%.

(6) Calls and Prepayments per § 95.10(f)

Examples cited by regulation may no longer be appropriate as safe harbors.

Assumptions should be commensurate with the underlying economics. To the extent simplified assumptions are used in the asset adequacy analysis, these assumptions should be justified based on materiality and conservatism in the projected results.

For each major line of business, supporting assets subject to calls and prepayments should be identified, with an explanation and justification of all call and prepayment assumptions.

For all mortgage-backed securities, the explanation of the prepayment assumption should identify all variables (e.g., collateral type, aging, coupon differential) used in the prepayment model and illustrative prepayment speeds (PSA multiples) for all combinations of values for each of the variables in the prepayment model. The justification of the prepayment rates should reflect an appropriate comparison of prior actual prepayment experience to expected prepayments based on the current assumed prepayment rates.

(7) Defaults per § 95.10(g) and Maximum Spreads to Treasuries

Examples cited by regulation may no longer be appropriate as safe harbors.

Expected defaults should be commensurate with the current market values for investments of like kind and quality. The basis and rationale for default provisions should be explained and justified in the actuarial memorandum, including how such provisions reflect future rating migration and with due regard for current market values. This test is performed for each weighted average life (WAL).

Expected spreads should be no greater than that available in the current market for investments of like kind and quality and should not be assumed to increase over the projection period other than to grade to long term spreads.

For all mortgage-backed securities, subprime exposure should be explicitly addressed, including the continued appropriateness of any default provisions carried over from the prior year's analysis.

For assets that are not subject to the 20% drop and 5.5% recovery pattern noted in Item 2 of this Letter, the net yield pick-up (before deduction of investment expenses) should be capped at the lesser of 200 bps and 100% of the current investment grade spread for A2 as of December 31, 2025, based on the WAL of such asset. Current spreads should be linearly graded to the long-term spreads between time 0 and the end of projection year 5.

For assets supporting payout annuities not issued on a substandard or rated basis and with no optionality (i.e., no cash value and the annuity payment schedule cannot be modified), such net yield pick-up may be increased to the average of the current investment grade Aa2 and A2 plus the lesser of 35 bps and 30% of the average current investment grade Aa2 and A2 as of December 31, 2025 ("Payout Annuity Illiquidity Spread"). Current spreads for the Payout Annuity Liquidity Spread should be linearly graded to the long-term spreads between time 0 and the end of projection year 5. The asset adequacy results for payout annuities applying the Payout Annuity Illiquidity Spread must be shown with and without such extra spread. Please note, the total spread cap of 200 bps is inclusive of any applicable illiquidity spread.

Current and long-term spreads for Aa2 and A2 assets are published by the NAIC in conjunction with the Valuation Manual. Current and archived spreads are available at the following location, www.naic.org/pbr_data.htm.

For this purpose, net yield pick-up is defined as the yield pick-up versus comparable investments that are generally regarded as "risk free" with respect to default risk (e.g., U.S. Treasuries) minus default provision based on current market values. For floating rate assets, the comparable U.S. Treasury is that with a time to maturity equal to the time until the next reset date for the floating rate asset. For fixed and floating rate notes the (WAL) is defined as the weighted average number of years until 100% of the outstanding principal is expected to be repaid, rounded to the nearest whole number but not less than 1. For assets that mature after 30 years, the (WAL) for determining the net yield pick-up shall be 30.

Strict technical compliance for each and every asset may not be possible due to modeling limitations. Professional judgment should be used to produce results that comply with the spirit of this request and a variety of alternative approaches may be acceptable. In any event, appropriate explanation and justification should be provided for the methodology that was employed and the results that were obtained.

The net yield pick-up should be applied across all interest rate scenarios to both existing assets (as of the valuation date) and assumed reinvestments.

When applying the net yield pick-up to existing assets, the default provisions should be increased as needed to limit the "net yield pickup" versus current Treasuries.

The following is an example of an approach that conforms to the spirit of this request; however, alternative approaches may also be acceptable. In any event, the provisions for default should reflect current market values. Particular attention also should be paid to assets that have been written down so default provisions are reflective of the amount of the write-down.

Example for an existing asset based on 12/31/2025 treasuries and NAIC spreads*
Non-callable AA Bond with 6 Years to Maturity and Annual Coupons

Coupon Rate	5.00%
Par Value	100,000
Market Value	97,000

Projected Cash Flows					
EOY 1	EOY 2	EOY 3	EOY 4	EOY 5	EOY 6
5,000	5,000	5,000	5,000	5,000	105,000

Gross Market Yield	5.602%
Default assumption from asset adequacy analysis (bps)	20
Net Market Yield	5.402%

5-year Treasury	3.730%
7-year Treasury	3.940%
6-year Treasury (Interpolated)	3.835%

Current spread (bps)	66.410
Long Term spread (bps)	101.920
increase per year for 5 years (bps)	7.102

	max spread	max net yield	excess yield
12/31/2025	66.410	4.499%	0.903%
12/31/2026	73.512	4.570%	0.832%
12/31/2027	80.614	4.641%	0.761%
12/31/2028	87.716	4.712%	0.690%
12/31/2029	94.818	4.783%	0.619%
12/31/2030 and later	101.920	4.854%	0.548%

*Please note actual calculations and testing must be based on 12/31/2026 data.

(8) Interim Results

Regardless of the form of asset adequacy analysis, interim results should be addressed.

For cash flow testing, interim results under the Level scenario must be provided for each projection year and each major line of business (Life, Health, Annuity). "Market value" interim results are not required, but the "book value" interim results must be provided, i.e., by showing the book value of assets, liabilities, and surplus. For the interim surplus test, volatile assets held in support of any variable products should be assumed to have an immediate 20% drop followed by a 5.5% annual recovery and all other volatile assets should be assumed to have a flat 4% annual return.

For other than cash flow testing, the appointed actuary should make a good faith effort with respect to the analysis and explanation of interim results. The appointed actuary should explain and justify the extent to which these results were considered in forming the actuarial opinion.

Note:
If there are any interim shortfalls (i.e., negative book value surplus) in the aggregate for all lines of business tested at any time during the projection period, with the exception of negative results due to the 20%

drop for volatile assets held in support of any variable products, then additional reserves must be posted to eliminate the shortfalls as of the valuation date. If there are any interim shortfalls after year two due to the 20% drop for volatile assets held in support of any variable products, then additional reserves must be posted to eliminate such shortfalls as of the valuation date. Simply relying on future surplus to cover all projected interim shortfalls will not be accepted.

(9) Asset Adequacy Analysis for Particular Products

For traditional life insurance policies with a level premium for a guaranteed period of ten years or more, followed by a substantial increase in premium after the expiry of the guaranteed level premium, or for universal life with secondary guarantee policies with an expected premium pattern similar to term life, to the extent relevant and credible experience is unavailable to support an alternative assumption, lapse rates within the last one third of the level term period should not exceed 2% per year and all business should be assumed to lapse at the expiry of the guaranteed level premium. If relevant and credible experience is available to the contrary, then see the Special Sensitivity Test section of this Letter.

For group and individual fixed deferred annuity contracts, and the fixed portion of group and individual variable annuity contracts (both with and without guaranteed living benefits), lapse rates of 20%, 40%, 60%, and 80% should be assumed when the calculated spread (CS) equals 100 bps, 200 bps, 300 bps, and 400 bps, respectively (and interpolated in between these rates).

The CS should be determined as follows:

$$CS = C - (CR + SC/3 + (GR - 1\%)/2)$$

where C = competitor rate
CR = credited rate
SC = surrender charge
GR = contractual minimum long-term guaranteed interest rate

The competitor rate assumptions used should be explicitly stated and justified. The CS should be floored at zero. This test should be performed for each of the increasing scenarios (i.e., those specific scenarios referenced in Sections 95.10(d)(1)(ii), (iii), and (iv) of Regulation 126) to the extent relevant and credible experience is unavailable to support an alternative assumption. If relevant and credible experience is available, then see the Special Sensitivity Test section of this letter.

Note:
Policies with a market value adjustment (MVA) are exempted from the dynamic lapse formula above. However, the actuarial memorandum should include commentary on the effectiveness and/or limitations of the MVA formula (e.g., caps on MVA, MVA based on treasuries).

For deferred annuities with minimum interest rate guarantees of 3% or more, the annual lapse rates assumed in asset adequacy testing should be 2% or less in low interest rate environments within the projection period, unless the company has relevant and credible experience to the contrary.

For universal life policies with secondary guarantees, the annual lapse rate after the tenth policy year should be less than or equal to 1%, unless a higher assumption is supported by credible and relevant

experience or if a shock lapse is expected due to a significant premium increase. For this purpose, the term "lapse" refers to both surrenders for value and lapses due to insufficient premiums to keep the policy in force. If relevant and credible experience is available, then see the Special Sensitivity Test section of this Letter.

For modeling individual payout annuities and annuitizations involving guaranteed lifetime income streams (including guaranteed minimum income benefit (GMIB) annuitizations and in-the-money guaranteed minimum withdrawal benefit (GMWB) lifetime income streams), the 2012 IAR Table should be used as the mortality table to the extent relevant and credible experience is unavailable to support an alternative assumption. If relevant and credible experience is available, then see the Special Sensitivity Test section of this Letter.

(10) Variable Annuities with Guaranteed Minimum Death Benefits (GMDBs) and Living Benefits (VAGLBs)

For individual variable annuities having these types of guaranteed benefits, two summaries should be provided. The first summary should include direct and assumed business, before reinsurance ceded. The second summary should include direct and assumed business, after reinsurance ceded.

Each summary should include the following details:

Number of contracts, account value, cash surrender value, guaranteed minimum death benefit, guaranteed living benefit, reserve net of CARVM allowance, additional reserve for guaranteed minimum death benefit and guaranteed living benefit (combined or separately).

These details should be provided as of 12/31/2026.

For this summary, the "guaranteed minimum death benefit" should be the death benefit as of the valuation date, whereas the "guaranteed living benefit" should be the present value of the "guaranteed living benefit" assuming 100% election at the earliest opportunity.

Present values should be based on the Level interest rate scenario, i.e., the beginning yield curve used for asset adequacy analysis. Projected benefit values should be consistent with the methodology used for asset adequacy analysis. If the present value of the "guaranteed living benefit" is less than the current account value, then the current account value should be used.

This summary is intended for risk assessment purposes only, i.e., to ascertain whether or not these guarantees may pose a material risk to the company.

The appointed actuary should comment on the materiality of these benefits and explain the key benefit variations (e.g., return of principal, rollups, ratchets).

(11) Variable Annuities with GMDBs and VAGLBs

Standalone asset adequacy analysis results should be provided as of 12/31/2026, even if these benefits have been fully reinsured. Results should be presented as stated in Item 3 above:

- These results should be computed for each of the interest rate scenarios specified in Section 95.10(d)(1)(i), (ii), (iii) and (iv) of Regulation 126 and the modified scenarios described in Item 4 of this Letter in conjunction with three equity scenarios:

(i) 20% immediate drop, 5.5% annual recovery starting at beginning of second year
(ii) 20% annual increase for 5 years, followed by 15% annual drop for 5 years, followed by 4% annual recovery (This second scenario is required only if there are ratchet or reset designs.)
(iii) 12% annual return for life of the business

These assumed growth rates for equities should be before deduction of M&E charges and investment expenses.

The results of such testing may be aggregated with the results for other lines of business as noted in Item 14(c) of this Letter.

- Regarding election and utilization rate assumptions:
  - The following assumptions should be applied in the absence of credible and relevant experience: for all three scenarios, a 100% election rate should be assumed for GMABs (Guaranteed Minimum Account Balance) at the earliest opportunity where exercising the guaranteed benefit option may be advantageous to the contractholder.

- Regarding lapse rate assumptions:
  - In the absence of credible and relevant experience for in-the-money (present value of benefits less cash surrender value) lapses, lapse rates on a guaranteed living benefit, which is more than 20% in the money of not greater than 1% per year should be assumed.
  - If credible and relevant experience is available, see the Special Sensitivity Test section of this Letter.

- Key assumptions (mortality for GMDBs, lapses, fixed income returns, etc.) should be explained and justified, including the extent of the margins needed to satisfy ‘‘moderately adverse conditions” requirements of the asset adequacy analysis.

- The present value of the M&E charges and the deferred contingent surrender charges (i.e., surrender charges on lapsed business) should be shown separately with comments as to what portion is needed to cover related expenses, what portion is needed to amortize the CARVM allowance, etc.

- These results should be shown before reinsurance ceded and after reinsurance ceded.

In addition, the total option value of VAGLBs along with an explanation of how the option value was calculated should be provided. Such option value should be calculated on a seriatim basis with arbitrage-free interest rates and equity return paths with an equity volatility consistent with that currently observed in the market and assuming efficient policyholder behavior. The option value should be provided before and after reinsurance and clearly show the associated reserve and account values.

(12) Equity Linked Products

For all equity linked products (e.g., equity indexed annuities, buffer annuity products, registered index-linked annuities (RILAs), equity indexed universal life, buffer life products), standalone asset adequacy analysis should be provided as of 12/31/2026, even if these benefits have been fully reinsured. This testing must be performed separately for each product.

Asset adequacy analysis should follow the guidance (interest rate and equity scenarios) provided in Section (11) above.

In addition, for equity linked annuity products, the analysis should use a 10-year projection period and a projection period long enough for the business to run out. Any additional asset adequacy testing requirement should be determined based on the more conservative of the results from the two projection periods.

The analysis in this section is a requirement. Results may be aggregated pursuant to Section 95.10(a) of Regulation 126.

(13) Companies with Accelerated Underwriting

An accelerated underwriting program is defined as any non-medical (i.e., no paramedical exam or not physically invasive) underwriting program or criteria based on external consumer data or information sources.

For business subject to accelerated underwriting, the Regulation 126 memorandum should include an overview of the accelerated underwriting program, describe how the corresponding mortality assumption was developed and include an explanation for how the appointed actuary got comfortable with the mortality assumption used in the testing. Furthermore, the mortality assumption for business subject to accelerated underwriting shall be no less than 110% of that assumed for fully underwritten business.

Simplified issue business where the assumed mortality is substantially higher than fully underwritten business should not be included in the definition of accelerated underwriting.

(14) Additional Review Criteria for Asset Adequacy Analysis per Regulation 126

In order for the Department to review whether or not the "moderately adverse conditions" testing requirement is being met for Regulation 126 asset adequacy analysis, the appointed actuary should confirm the following:

(a) All material assumptions should be clearly explained and justified in the actuarial memorandum, including validations to historic results and/or industry data as directed in Appendix I.
(b) Each material assumption should include an explicit margin.
(c) Where cash flow testing is performed, the interest rate scenarios specified in Section 95.10(d)(1)(i), (ii), (iii) and (iv) of Regulation 126 and the modified scenarios 5, 6, and 7 included in Item 4 above should be tested with reserves established such that company aggregate results are positive under each of these scenarios. Aggregation across lines of business (i.e., Health, Life and Annuity) is subject to prior approval per Section 95.10(a)(2) of Regulation 126. Additional reserves needed as a result of required testing under Regulation 147 paragraph 98.9(c)(2)(viii)(j), may not be reduced through aggregation with the results of testing other business.
(d) If negative results are reduced by anticipated federal income tax offsets, such offsets should be demonstrated to be truly recoverable.
(e) Appropriate conservatism should be added to the extent credible experience is lacking.

(f) To the extent yield enhancing activity (e.g., securities lending, repurchase agreements) is material to projected cash flows, explain how it is taken into account. Risk free profits may not be assumed in the testing as a result.
(g) If borrowing is assumed, it should only be modeled to address very short-term liquidity needs.
(h) The ongoing availability and affordability of reinsurance-related letters of credit should be clearly addressed, where applicable.
(i) Expected future funding requirements of reserve credit trusts along projection scenarios should be clearly addressed, where applicable.
(j) All derivatives used for hedging or replication should be clearly explained and their impact appropriately reflected, where applicable.
(k) Favorable trends (e.g., future mortality improvement on life insurance and future morbidity improvement on accident & health insurance) should be assumed not to continue beyond the valuation date.
(l) Any other improvements should not be assumed beyond the valuation date (e.g., mean reversion of the yield curve, increase in spreads, decrease in expenses).
(m) Cash flows associated with those proportional reinsurance agreements that increase the present value of surplus and do not qualify for reinsurance reserve credit should be excluded from the testing.
(n) Reinsurance ceded that does not qualify for reinsurance accounting should be included within the testing if including such business decreases results.
(o) Profits from yearly renewable term (YRT) reinsurance (in aggregate at the line of business level – e.g., Life, Annuity and Health) ceded to a reinsurer should not be assumed in the analysis. Appropriate adjustments must be made, and the methodology must be described in the actuarial memorandum.
(p) Inflation should be no less than the greater of 1.0% and half of the 5-year Treasury rate.
(q) Short-term health and life business should not assume any renewals beyond the guaranteed period.
(r) Corporate Owned Life Insurance (COLI) covering the company's own employees may not be used as an asset in asset adequacy analysis.
(s) The full amount of admitted negative IMR must be included in the starting assets in asset adequacy testing. The supporting memorandum should confirm, and provide a description of, how the proceeds from fixed income assets were used to buy new, higher yielding fixed income assets and that the proceeds from the sales were not used to pay claims.
(t) Explain how, and by what percentage, the company's Capital & Surplus (Page 3, Column 1, Line 38) increased as a result of new reinsurance treaties entered into during 2026.

A brief description should be provided for each of these items within the Special Considerations section of the actuarial memorandum.

(15) Review Criteria for "Sound Value" Requirements per Regulation 56

In order to determine whether or not the Regulation 56 "sound value" reserving requirement is being met for LTD and LTC, the Department's review may include, but is not limited to, the following aspects for the standalone asset adequacy analyses referenced in Item 3 above:

(a) Asset adequacy analysis should anticipate no premium rate increases unless they have been approved and the company confirms plans to implement along with the approximate date.

(b) If credible and relevant experience is not available for LTC business, the assumed ultimate lapse rates (i.e., for policy years 15 and later) should not be greater than 1% per year.

Market Value Adjusted (MVA) Annuities

For companies with in-force MVA annuity contracts, funded in a separate account with assets valued at market, the following should be submitted:

1) the actuarial opinion and memorandum as required by §44.11(b)(1)(v) of Regulation 127, and
2) for contracts subject to §44.11(b) of Regulation 127, the Macaulay durations of the assets and of the liabilities.

For companies with in-force MVA annuity contracts, funded in a separate account or in the general account, with assets valued in accordance with §1414 of the Insurance Law and with reserves calculated in accordance with §44.11(c)(1) of Regulation 127, the following should be submitted:

1) the actuarial opinion and memorandum as required by §44.11(c)(2)(v) of Regulation 127, and
2) the Macaulay durations of the assets and of the liabilities (§44.11(c)(2)(iii) of Regulation 127).

Regulation 128 Business

An actuarial opinion and memorandum as described by Regulation 128 should be submitted for all such business, including synthetic guaranteed investment contracts (GIC)s. Asset adequacy analysis should handle synthetic GICs consistently with non-synthetic GICs. The following information should be included with the Actuarial Memorandum:

1) The book value and market value of synthetic GIC contracts issued in New York and of synthetic GIC contracts issued in jurisdictions other than New York. The market values should be subdivided according to whether assets are managed by (i) the company or one of its affiliates or (ii) an investment manager not affiliated with the company;

2) A list of all currently approved synthetic GIC New York plans of operation, including a brief summary of identifying information and the date of approval;

3) For synthetic GIC contracts issued in jurisdictions other than New York, the number of contracts, total book value, and total market value for (i) contracts that meet all the requirements of a currently approved New York plan of operation; and (ii) contracts that do not meet all the requirements of a currently approved New York plan of operation. For contracts in the latter category, the company should summarize the main contract provisions that cause them to fall into that category.

Life Risk-Based Capital Analysis

Life RBC Phase 1 and Phase 2 analyses should provide at least the same level of conservatism as asset adequacy analysis with respect to assumptions other than interest rate scenarios, asset assumptions which are addressed in other RBC charges, and the dynamic lapse function for fixed deferred annuities described in Item 9 of this Letter. The assumed return for volatile assets in RBC testing should be limited to the annual recovery rate specified in Item 2 above. The initial 20% drop does not need to be incorporated into the RBC testing. The Phase 1 analysis should include a sensitivity test applying this dynamic lapse function.

Special Sensitivity Tests

These tests are generally intended for risk assessment purposes only, i.e., to ascertain whether or not these factors may pose a material risk to the company.

These tests may suggest the need for additional reserves as deemed appropriate in light of company-specific circumstances.

The results of each of the interest rate scenarios specified in Section 95.10(d)(1)(v), (vi) and (vii) of Regulation 126 must be provided only as a sensitivity test incorporating the prior sections of this Letter (*e.g.*, the net yield pick-up, lapse assumption).

In addition, the results of the special sensitivity tests below must be provided for each of the interest rate scenarios specified in Section 95.10(d)(1) of Regulation 126 and the modified scenarios in Item 4 of this Letter as applicable.

For traditional life insurance policies with a level premium for a guaranteed period of ten years or more, followed by a substantial increase in premium after the expiry of the guaranteed level premium, lapse rates within the last one third of the level term period should not exceed 2% per year and all business should be assumed to lapse at the expiry of the guaranteed level premium. Note that these are sensitivity tests if relevant and credible experience to support an alternative assumption is available. If results for the sensitivity test are less favorable than baseline results, the baseline expected mortality assumption for the policyholders persisting beyond the end of the level period should be explained and justified. To the extent relevant and credible experience is unavailable, then these tests should be the baseline assumption.

For group and individual fixed deferred annuity contracts, and the fixed portion of group and individual variable annuity contracts (both with and without guaranteed living benefits), a special sensitivity test should be performed using lapse rates of 20%, 40%, 60%, and 80% when the calculated spread (CS) equals 100 bps, 200 bps, 300 bps, and 400 bps, respectively (and interpolated in between these rates). The CS should be determined as the following:

$$CS = C - (CR + SC/3 + (GR - 1\%)/2)$$

where C = competitor rate
CR = credited rate
SC = surrender charge
GR = contractual minimum long-term guaranteed interest rate

The competitor rate assumptions used should be explicitly stated and justified. The CS should be floored at zero. This sensitivity test should be performed for each of the increasing scenarios (i.e., those specific scenarios referenced in Sections 95.10(d)(1)(ii), (iii), and (iv) of Regulation 126). If results for the sensitivity test are less favorable than baseline results, the baseline expected lapse assumption for relevant durations should be explained and justified. To the extent relevant and credible experience is unavailable, then this test should be the baseline assumption.

For universal life policies with secondary guarantees, the annual lapse rate after the tenth policy year should be less than or equal to 1% unless a shock lapse is expected due to a significant premium increase. Note that this is a sensitivity test if relevant and credible experience to support an alternative assumption is available. If results for the sensitivity test are less favorable than baseline results, the baseline expected lapse assumption for relevant durations should be explained and justified. To the extent relevant and credible experience is unavailable, then this test should be the baseline assumption. For this purpose, the term "lapse" refers to both surrenders for value and lapses due to insufficient premiums to keep the policy in force.

For all business subjected to cash flow testing, a special sensitivity test should be performed using a 500 bps pop-up interest rate scenario. The ratio of market value of assets before and after the pop-up scenario, and the method for determining the market value of assets after the pop-up scenario, should be stated and discussed in the memorandum.

In addition, for all companies with VAGLBs, a special sensitivity should be performed using a 40% immediate drop, 3% annual recovery starting at beginning of second year.

Regarding VAGLB election and utilization rate assumption, a 100% election rate should be assumed for GMABs (Guaranteed Minimum Account Balance) at the earliest opportunity where exercising the guaranteed benefit option may be advantageous to the contractholder. A 20% election rate should be assumed for other VAGLBs at the earliest opportunity where exercising the guaranteed benefit option may be advantageous to the contractholder, with 20% utilization assumed for each successive year where exercising the guaranteed benefit option may be advantageous to the contractholder. If results for the sensitivity test are less favorable than baseline results, the baseline expected mortality assumption for the persisting policyholders should be explained and justified.

Regarding VAGLB lapse rate assumptions, assume lapse rates on a guaranteed living benefit that is more than 20% in the money of not greater than 1% per year. Note that this is a sensitivity test if relevant and credible experience to support an alternative assumption is available. If results for the sensitivity test are less favorable than baseline results, the baseline expected mortality assumption for the persisting policyholders should be explained and justified. To the extent relevant and credible experience is unavailable, then this test should be the baseline assumption.

For modeling individual payout annuities and annuitizations involving guaranteed lifetime income streams (including GMIB annuitizations and in-the-money GMWB lifetime income streams), the 2012 IAR Table should be used as the mortality table. Note that this is a sensitivity test if relevant and credible experience to support an alternative assumption is available. If results for the sensitivity test are less favorable than baseline results, the baseline expected mortality assumption should be explained and justified. To the extent relevant and credible experience is unavailable, then this test should be the baseline assumption.

A special sensitivity test should be performed (at the company-wide aggregate level) to measure the dependency of results on assumptions that all projected profits will be retained rather than released. This test can assume that some portion of the projected profits will be retained, but the rationale should be provided.

Life RBC Phase 2 stochastic testing should include a special sensitivity test, excluding the impact of hedges not actually held as of the valuation date.

Additional Guidance

Questions concerning this letter should be directed via e-mail to Dwight Hazzard, FSA (Assistant Chief Life Actuary) or by phone at (518) 474 – 7929.

Appendix I – Validation

The following information should be included with the response to the Department's Special Considerations Letter.

1. For the cash-flow tested business, both in aggregate and by modeled groups, provide in a spreadsheet the projected income statement and balance sheet for each year of the projection period for the level interest rate scenario with items including, but not limited to, the following:

    a. Premium
    b. Gross investment income (as opposed to net investment income)
    c. Investment expenses
    d. Default costs
    e. Death benefits
    f. Annuity benefits
    g. Disability benefits
    h. Surrender benefits
    i. Other benefits (specify)
    j. Maintenance expenses
    k. Commission
    l. Change in reserves
    m. Effect of reinsurance
    n. Invested assets
    o. Policy loan amounts (if applicable)
    p. Policy reserves
    q. Investment reserves (IMR & AVR)

    For each modeled group, and in aggregate, corresponding to the projected data above:

    i. Provide the initial amount of each balance sheet item.
    ii. Explain the rationale for the number of years projected.
    iii. Provide both the actual gross and net investment rates of return in 2026 for the initial assets backing the initial reserves.

2. A comparison of prior 3 years' Actual to 2027 Projected for cash-flow components in Item 1 above, and an explanation of any significant difference in terms of dollar amount or rate. For example, while the 2026 actual investment income may differ from the 2027 projected amount, investment rates of return should be comparable. Confirm that the 2026 actual amounts used in the comparison have been reconciled to the company's 2026 Annual Statement.

3. Provide in a spreadsheet:

    i. Amounts of modeled assets and statement assets as of the projection start date, both on a book value basis and on a market value basis, and by asset classes at least as detailed as the asset page of the statutory statement (e.g. bond, stock).
    ii. Amounts of modeled liabilities and statement liabilities as of the projection start date, by major in-force blocks or lines of business.