



Changes to negative Interest Maintenance Reserve and implications

August 2023

Synopsis:

[Statutory Accounting Principles](#) are designed to provide transparency over solvency by separately reporting the value of reserves and surplus that are part of admitted assets. Reserves represent the value of assets required to support financial risks, benefits, and guarantees associated with the policies, with the remaining value of admitted assets reported as surplus, sometimes referred to as 'Capital and Surplus,' and used in to provide an adequate margin of safety. Life insurance policies and fixed-income assets are largely accounted for symmetrically at cost and insulated from interest rate fluctuations. Interest Maintenance Reserve (IMR) is an accounting construct designed to safeguard against the potential misrepresentation of surplus due to asset sales and keep the anticipated investment yield consistent with that needed to support the policies.

In a declining interest rate environment, an insurer could sell fixed-income assets, recognize gains, and increase surplus. In reality, the sale and reinvestment would be in lower-yield assets with insufficient interest payments to support policies. This shortfall highlights the ongoing need for the gains to support the policy block rather than, say, be paid off as a dividend. To align the balance sheet with the economic reality, IMR defers interest rate-related gains from fixed-income asset sales and requires them to be amortized through income over their remaining life. Without the IMR offset (i.e., through the deferral of the gains), the surplus would inappropriately portray a false representation of financial strength.

Similarly, fixed-income portfolio sales in rising interest rate environments could result in a misleading reduction of surplus. The economics mirror those above, with the company reinvesting in higher-yielding assets with interest payments that exceed those needed to support policies that directionally offset the realized loss. The NAIC only recently adopted admittance of negative IMR as an asset in surplus and capital, with qualifications on an interim basis; amortized negative IMR had already been incorporated into earnings. Prior to allowing for admittance of IMR offset (i.e., through the deferral of the losses), the surplus was inappropriately showing decreased financial strength, which was increasingly constrained in the context of the recent dramatic rise in interest rates. The perverse incentives had insurers focus on managing statutory financial outcomes, limiting fixed-income transactions, and deviating from long-standing investment practices, including prudent asset-liability management (ALM) and risk management behaviors related to portfolio rebalancing. This seemingly obscure piece of accounting is impacting a broad set of investment strategies and business models, including the likes of pension risk transfer (PRT).

Life insurers' balance sheets in the United States are robust, and solvency is not under question, with insurance policies experiencing directionally equivalent movements in valuation as fixed-income assets. Nevertheless, the stakes are high, with life insurers facing close to an estimated \$700 billion of unrealized losses on fixed-income investments reported on Schedule D alone, coupled with our empirical analysis of insurers' fixed-income trading activity that suggests qualifications for admittance possibility resulting in life insurers facing continued constraints with managing their fixed income portfolios prudently. Acknowledging the need for a more thoughtful long-term solution, an ad hoc group is likely to be formed to explore long-term solutions reflecting the 2025 sunset of the temporary guidelines.

**We hope you find this resource helpful
It is consistent with our goal of bringing value to our community**

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- **ART Newsreels** alert users of the changes to the investment landscape, including NAIC and state investment guidelines, packaging, and delivering what matters most through timely, concise, and clear messaging.
- **ART Chronicles** are a centralized repository of recent and possible future changes to the landscape, including NAIC and state investment guidelines. Our Chronicles consolidate Newsreels in a distilled and easy-to-navigate format.
- **ART Heatmaps** provide a visualization of the varying investment limits that govern asset classes across states.
- **ART Investment Classification (beta)** assists with the classification of assets, which includes requirements under the proposed principles-based bond definition which consists of possible heightened reporting requirements.

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1 Executive Summary

[Statutory Accounting Principles](#) are designed to provide transparency over solvency by separately reporting the value of reserves and surplus that are part of admitted assets. Reserves represent the value of assets required to support financial risks, benefits, and guarantees associated with the policies, with the remaining value of admitted assets reported as surplus, sometimes referred to as 'Capital and Surplus,' and used in to provide an adequate margin of safety. Life insurance policies and fixed-income assets are largely accounted for symmetrically at cost and insulated from interest rate fluctuations. Policies are generally valued at the interest rate prevailing at the time of issuance when their supporting bonds are acquired that are generally valued at cost.^{1,2} Solvency measures deliberately abstract from market fluctuations in valuation, which has supported U.S. life companies offering long-term products.³ Financial statements aspire to report assets and liabilities consistently, providing an assessment of solvency by measuring the extent to which assets are able to pay policy obligations when they become due.

First effective in statutory accounting in 1992, Interest Maintenance Reserve (IMR) is an accounting construct designed to safeguard against the potential misrepresentation of surplus and keep the anticipated investment yield relationship consistent with that needed to support the policies. In a declining interest rate environment, an insurer could sell fixed-income assets, recognize gains, and increase surplus. In reality, the sale and reinvestment would be in lower-yield assets with insufficient interest payments to support policies. This shortfall highlights the ongoing need for gains to support the policy block rather than, say, be paid off as a dividend. To align the balance sheet with the economic reality, IMR defers interest rate-related gains from fixed-income asset sales and requires them to be amortized through income over their remaining life. Without the IMR offset (i.e., through the deferral of the gains), the surplus would inappropriately portray a false representation of financial strength.

While the original intent was for IMR to be unlimited for both gains and losses,⁴ the treatment of negative IMR is not symmetric. This asymmetric treatment became a focal point of the industry as the recently elevated interest rate environment has increasingly driven IMR to be negative. Life insurers' balance sheets in the United States are robust, and solvency is not under question, with insurance policies experiencing directionally equivalent movements in valuation as fixed-income assets. Nevertheless, the stakes are high under today's interest rate environment, with life insurers holding close to an estimated \$700 billion of unrealized losses on fixed-income investments reported on Schedule D alone. Given the otherwise perverse implications, the NAIC recently adopted the interim admittance of negative IMR as an asset with qualifications on an interim basis; amortized negative IMR had already been incorporated into earnings. Prior to allowing for the admittance of negative IMR, fixed-income portfolio sales in rising interest rate environments could result in a misleading reduction of surplus. The economics mirror those above, with the company reinvesting in higher-yielding assets with interest payments that exceed those needed to support policies that directionally offset the realized loss. Without the IMR offset (i.e., through the deferral of the losses), the surplus was inappropriately showing decreased financial strength, which was increasingly constrained in the context of the recent dramatic rise in interest rates. The perverse incentives had insurers focus on managing statutory financial outcomes, limiting fixed-income transactions, and deviating from long-standing investment practices, including prudent asset-liability management (ALM) and risk management

¹ There are a range of exceptions and special provisions, such as liabilities with Market Value Adjustments.

² In addition, policy reserves are treated consistently, with cash flow matching generally insulating them from fluctuating interest rates.

³ In contrast, life industries overseen by regulatory and accounting jurisdictions that rely on a fair value perspective of solvency have often struggled to offer viable long-term products. Although it is important not to conflate policy choices with the framework used to exercise those choices. See R.A. Rae, A. Barrett, D. Brooks, M.A. Chotai, A.J. Pelkiewicz and C. Wang, [A review of Solvency II: Has it met its objectives?](#) (2017).

⁴ [Asset Valuation Reserves and Interest Maintenance Reserves Blue Book December 2002, Report to the Financial \(E\) Committee](#)

behaviors related to portfolio rebalancing. This seemingly obscure piece of accounting is impacting a broad set of investment strategies and business models, including the likes of pension risk transfer (PRT).

With the concerns of possible unintended consequences top of mind, the U.S. insurance industry's communal approach to policy design had SAPWG and industry urgently converge on temporarily overriding [SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve](#), permitting a level of negative IMR as an admitted asset through 2025. It allows qualifying life insurers with adjusted authorized control level RBC greater than 300% to admit negative IMR up to 10% of adjusted surplus and capital across both the general and segregated accounts, with some qualification. Our empirical analysis of insurers' fixed-income trading activity suggests that qualifications for admittance may be overly constraining in the context of the unprecedented unrealized loss on fixed-income portfolios. Of course, the precise way it plays out will depend on how insurers adapt their strategies to the new rules and the ever-evolving interest rate environment. The temporary override will be automatically nullified on January 1, 2026, providing the community time to develop a thoughtful long-term solution, with an ad hoc group likely being formed to lead the effort.

This report quantitatively assesses the materiality of negative IMR, the interim guidelines, and implications for investment and business strategy. It also reviews the implications for reserving and Asset Adequacy Testing (ATT). It frames the complexity of IMR and the various requirements of interrelated components underpinning the regulatory 'toolbox' used to assess insurers' solvency.

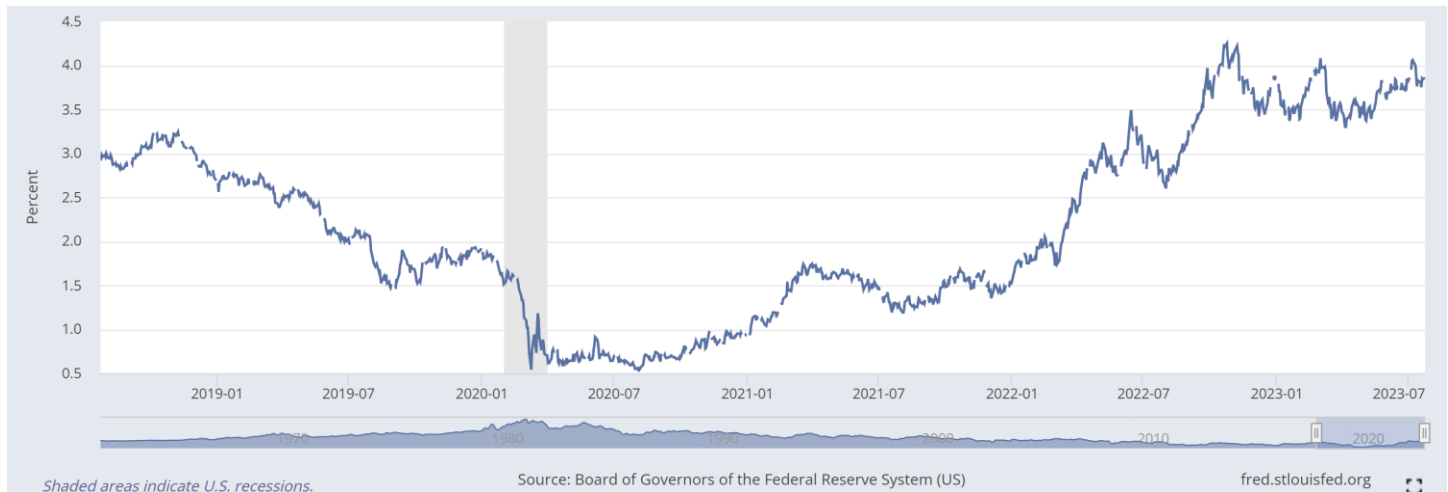
2 A quantitative assessment of materiality

Assessing the quantitative implications of admitting negative IMR and the qualifications is critical when considering a long-term solution for 2026. While critical, it is challenging given the unprecedented interest rate environment and negative IMR being admitted for the first time. We approach this by estimating and comparing unrealized loss with current IMR levels and Capital and Surplus. We then analyze fixed-income transactions under varying interest rate environments and estimate how much the industry would transact if unconstrained. We find that the 10% admittance limit for negative IMR will possibly constrain many insurers.

The recent rise in interest rates has been spectacular, with 2020 10-year U.S. treasuries yielding as low as ~50 bps, increasing to values north of 4% in 2023 (*Figure 1*). Life insurers' 2022 Schedule D1 bond investments in the likes of corporate, government, and structured products are at ~\$3.5 trillion. With the weighted average duration at 8.6 years, the change in the 10-year U.S. Treasury yields over 2022 of ~2.25% (*see Figure 1*) resulted in unrealized loss on their D1 portfolios in the order of \$675 billion, with direct mortgages and other fixed-income holdings driving the total unrealized loss even higher.⁵

⁵ This was estimated by multiplying the weighted average bond duration of 8.66 years by the change in interest rates of 2.25% and schedule D1 \$3.5T bond holdings. The value is indicative. A more comprehensive study would require tracking of bonds sold and acquired over time, along with the changes in the interest rate term structure.

Figure 1: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity (Source: Board of Governors of the Federal Reserve System)



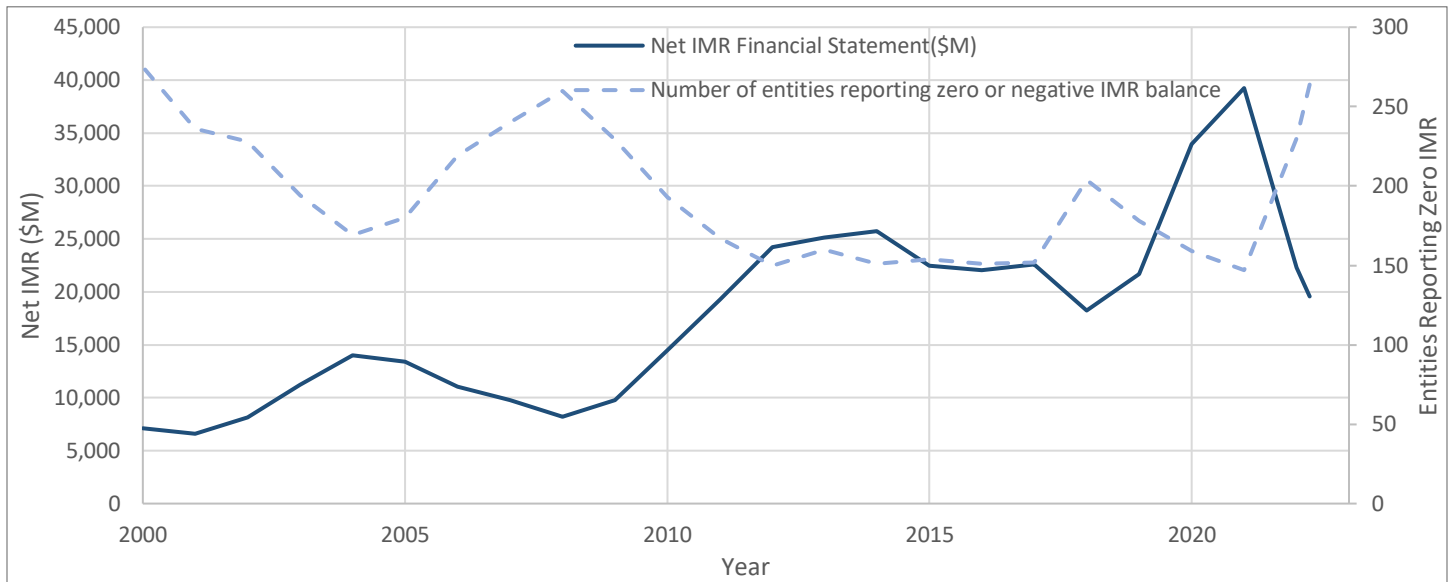
In assessing the possible impact of admitting negative IMR, we explore the net IMR balance and the number of entities reporting zero or negative IMR on their balance sheets in *Figure 2*. Consistent with NAIC staff [findings](#), which provide analysis of net IMR through 2022 Q3, we can see life insurers' year-end 2022 balance sheet reporting totaling a net positive IMR of ~\$22 billion, down from over \$40 billion in 2021, with the trend continuing and net IMR dropping further to \$19 billion in 2023 Q1. This is the most significant total net IMR decline since reporting began. Thus far, negative IMR has been reported on balance sheets for a handful of companies, 13 either granted permitted practice, offsetting positive IMR in separate accounts, or simply reporting incorrectly. With that in mind, the number of entities reporting zero, whose IMR may be negative and disallowable, increased (56%) and stood at 215 by year-end 2022, rising to over 250 by 2023 Q1.^{6,7} While still lower than in the early parts of the sample, the number is growing at its fastest rate since reliable data has been available. A few other notable observations include fewer than 5% of entities experiencing an increase in IMR in 2022, and the average firm reported a 35% reduction in IMR in 2022. In fact, 25% of entities saw their IMR balance drop by more than half.

Insurers' IMR reports provide additional details, with 163 entities reporting negative IMR and seven reporting more negative than \$100 million. Given inconsistencies in reporting related to negative IMR noted by NAIC staff, we acknowledge the need to interpret any statistic with caution. For example, 215 entities reporting zero IMR, whose IMR may be negative and disallowable, seem inconsistent with the 163 reporting negative IMR on their IMR report; the likelihood of having exactly zero IMR is unlikely.

⁶ NAIC staff's [analysis of companies' IMR reporting](#) found variation in reporting standards across companies, with some companies erroneously reporting negative IMR.

⁷ For context, the 230, 215 at zero and 15 negative entities with zero or net negative IMR represent 102 groups.

Figure 2: IMR and the count of entities reporting no IMR as of 2023Q1 (Source: S&P Global Markets⁸ and Bridgeway Analytics Calculations)



We now explore the magnitude of the 10% limit on admitted negative IMR and the degree to which it might be constraining. In this context, we use a conservative proxy, abstract from the soft asset adjustment, and measure only Capital and Surplus. The total Capital and Surplus for firms meeting the 300% ACL minimum are \$ 449 billion, suggesting the maximum admittance under the 10% limit is less than \$45 Billion.⁹ As seen in Figure 3, the variation in Capital and Surplus is broad, although most firms hold between 5% and 15% surplus, indicating that the 10% limit is in the order of 1% of admitted assets for most firms.

⁸ See Appendix: S&P Global Market Intelligence Data Use Disclaimer

⁹ Only 39 out of 672 entities report less than 300% ACL RBC, accounting for ~ 0.2% of admitted assets. This analysis abstracts from removing soft assets and thus represents a lower bound. As a reminder:

$$ACL\ RBC\ Ratio = 2 \times \frac{Capital\ and\ Surplus + AVR + 0.5 \times Dividend\ Liability}{Company\ Action\ Level\ RBC}$$

Figure 3: The distribution of Capital and Surplus as a percent of admitted assets: S&P Global Markets¹⁰ and Bridgeway Analytics Calculations)

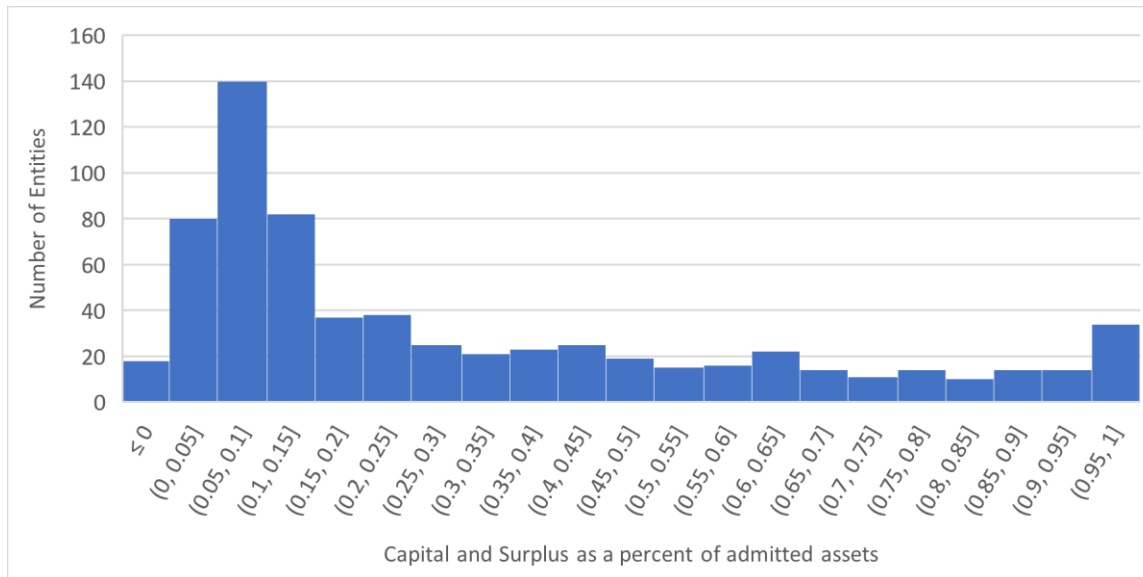
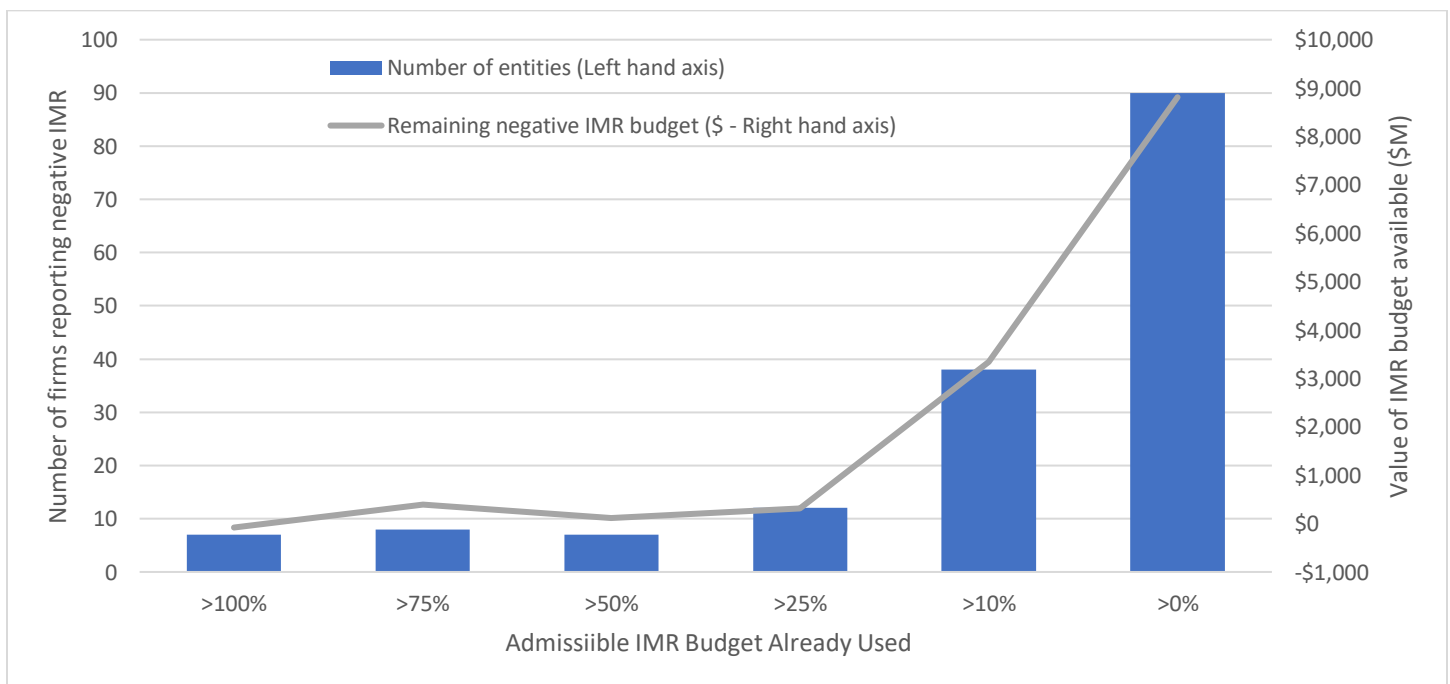


Figure 4 explores the IMR report further using the conservative proxy of 10% unadjusted Capital and Surplus as the negative IMR budget. Of the 672 life entities, 162 report admitted and non-admitted negative IMR, seven have already exceeded their 10% budget, and 22 have used more than half of the allowance presented by the blue bars. The gray line highlights the remaining combined dollar budget available for these entities. Entities that have consumed less than 20% of their negative IMR have ~12 billion combined budgets, suggesting that the admissibility of negative IMR will provide a good amount of flexibility. That said, the degree to which the qualifications will be binding will depend on the extent to which insurers’ investment strategies will change, which we now explore.

Figure 4: Negative IMR budget and use

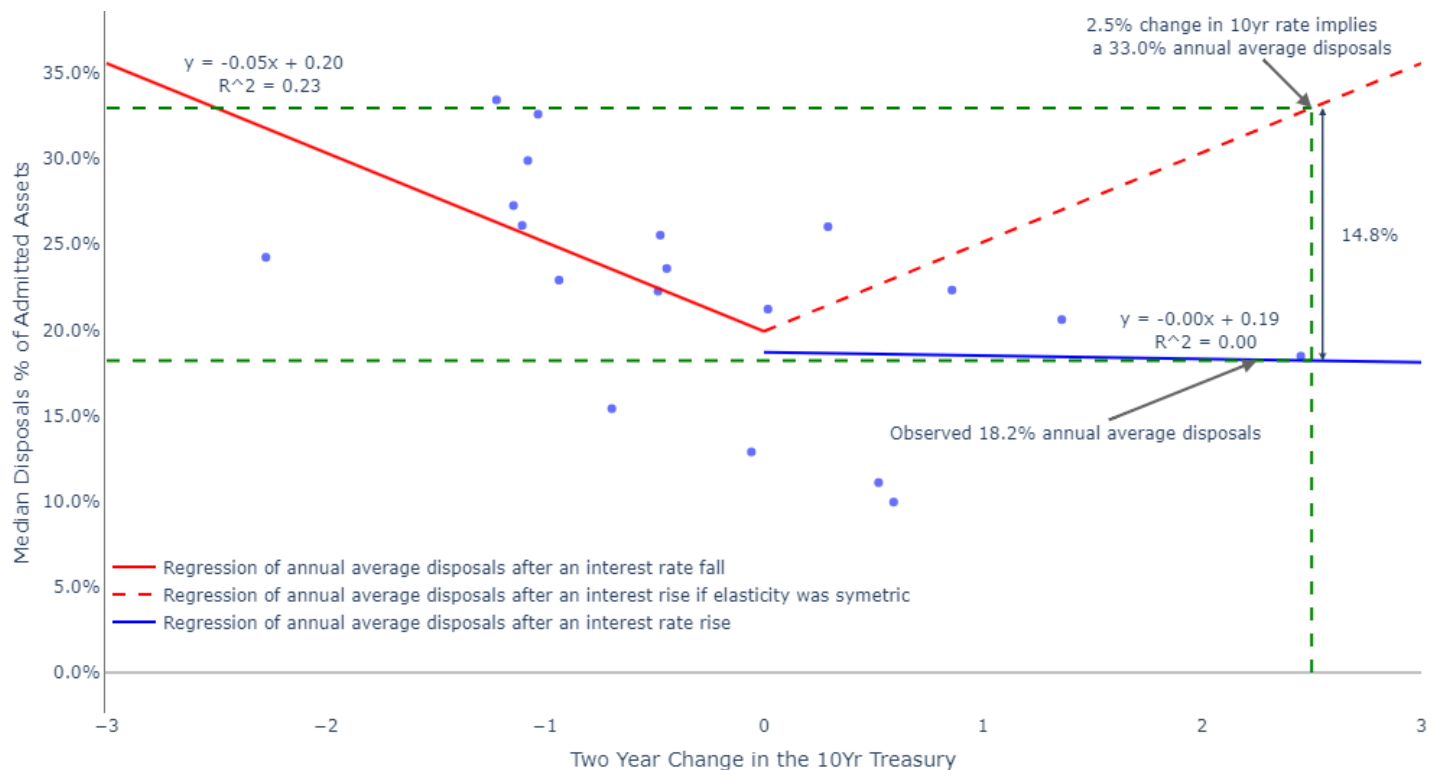


¹⁰ See Appendix: S&P Global Market Intelligence Data Use Disclaimer

Admittance of negative IMR will undoubtedly impact fixed-income investment strategies, reducing, but not eliminating, constraints on insurers' fixed-income strategy. To understand the possible scope of impact from the admittance of negative IMR and the extent to which the 10% limit might be binding, *Figure 5* explores fixed-income portfolio disposals for life firms between 2004 and 2023, taking the median over firms for each year.¹¹ Intuitively, we see a strong relationship between higher turnover when there are large negative changes in interest rates as insurers are likely to need rebalancing and duration match their balance sheet.

The effect is not symmetric. Higher disposals on Schedule D are not associated with large positive changes in interest rates and is consistent with non-admittance of negative IMR, constraining insurers from rebalancing and duration matching. If the impact of the change in rates were symmetric, i.e., if the two-year change to end 2022, 2.5%, led to the same level of disposals as a 2.5% decrease, the level of additional fixed-income transactions would be in the order of 14.8% of admitted assets, or more than \$1 trillion in transaction volume over the previous year. This represents a net realized loss of ~\$231 billion from disposals,¹² significantly more than the combined current level of IMR and the 10% of capital and surplus permitted, which is less than the \$45 billion estimated upper bound. In reality, the effect would not be entirely symmetric; bond convexity and the different economics of rate rises and falls would result in different incentives. With a wide range of caveats aside, this first-order approximation suggests that the 10% cap will be binding for many insurers.¹³

Figure 5: Median annual Schedule D disposals as a percent of admitted assets vs. Two-year change in the 10Yr Treasury



3 Broad business implications – insights for an aspirational long-term solution

Referenced in the Executive Summary, the interim guidelines allow for the admittance of negative IMR with qualifications leaving the possibility of significant non-admitted negative IMR that would continue to constrain insurers' transactions,

¹¹ Data prior to 2004 is not well reported, and each quarter had between 500 and 600 entities reporting transactions, representing 75-80% of all reporting entities and over 90% of all admitted assets.

¹² As above, we use a simple duration approximation to estimate the loss on the \$1 trillion fixed-income Schedule D assets with an average duration of 8.6 years and a 2.25% increase in interest rates at \$231 billion = \$1,000 billion × 8.66 × 2.25%.

¹³ While this analysis is admittedly imprecise, we ran several tests and found the relationship is robust to entity size.

the materiality of which will only become apparent once insurers report and adapt their investment strategies under the new rules. With that in mind, it is important to understand the broad implications of not admitting negative IMR for business strategy.

As discussed extensively in commentary from the ACLI, the dynamic environment requires life insurers to actively manage general account and separate account assets as part of the ordinary course of managing product, disintermediation, and duration risks to meet future policyholder obligations. Prudent ALM involves sales and reinvestment in fixed-income investments and duration hedging activities that are the primary generators of negative IMR in a rapidly rising or prolonged high-rate environment. The ACLI commentary explains some of the implications:

- Limiting trading of fixed-income investments and the usage of derivatives could create a mismatch between assets and liabilities; and
- Avoid hedging or trading to mitigate future reinvestment risks and limit credit concentrations. Insurers could be more focused on managing the misrepresented short-term financial position (due to disallowed negative IMR), generating misalignment in asset-liability duration and retention of undesirable exposure to interest rate and credit risks.

Prior to the interim updated guidelines, the unprecedented accumulated unrealized loss had insurers take various strategies to ensure surplus and other solvency metrics were appropriately managed. This includes budgeting negative IMR across investment strategies to limit swings in surplus and placing limits on risk-mitigating and value-enhancing strategies. It is possible that limiting such strategies could result in higher premiums or the elimination of such products altogether. For example, if a company is required to eliminate or reduce their hedging of reinvestment risk for future premium (e.g., for long-term care products), there is a greater risk that the needed investment returns are achieved.

In addition, business strategies, such as PRT or other transactions that include the transfer of long-duration liabilities, were impacted. We walk through a [PRT](#) transaction for context. These transactions have a pension provider generally transferring assets to the life insurer, which assumes the annuity risk for plan participants. Life insurers often use derivatives over the initial transition period to lock in market conditions while anticipating the multi-year rotation of assets toward their aspirational portfolio with characteristics that will match those of the supporting liabilities.¹⁴ Non-admittance of negative IMR can complicate the transaction. As with fixed-income assets, negative IMR is now admissible for derivatives, with qualifications, through 2025.

4 Interim guidelines- the details

4.1 Guidelines through 2025

While admitting negative IMR as an asset that will never produce cashflows might seem superficially inconsistent with the conservative nature of statutory accounting, one can argue that the justification for admitting negative IMR is no different than admitting the asset it replaced, the unrealized loss portion of the bond that was sold and held at cost. An insurer will only choose to replace the asset if it leads to an improvement in expected outcomes. The Blue Book Report outlines the rationale for IMR and concludes that neither a maximum nor a minimum is appropriate; it discusses the role of IMR at length and highlights the following:¹⁵

¹⁴ See the section titled Hedging Duration Risk on Long Duration Liabilities (like Pension Risk Transfer, or PRT) in the May 17, 2023, [ACLI comment letter](#).

¹⁵ [Asset Valuation Reserves and Interest Maintenance Reserves Blue Book December 2002, Report to the Financial \(E\) Committee](#)

The most important and fundamental purpose of the Statutory Statements is to provide basic financial information focusing on solvency. Other accounting objectives, such as accurate measures of earnings, are considered to be less important.

While no maximum is placed on the IMR, the interim guidelines restrict negative IMR. SAPWG discussions leading to the recently adopted guidelines indicate general agreement that admitting negative IMR can align investment decisions with economics. That said, some regulators raise concerns over admitting an asset that will never produce cashflows, instead justifying admittance through offsetting liability dynamics. To address those concerns, guidelines incorporate general guardrails that include:

- Limiting admittance of 'negative (disallowed) IMR' to 10% of general account Capital and Surplus, adjusted to exclude net positive goodwill, EDP equipment, operating system software, net deferred tax assets, and admitted net negative (disallowed) IMR.^{16, 17, 18}
- RBC must be greater than 300% authorized control level (ACL), adjusted to exclude net positive goodwill, EDP equipment, operating system software, net deferred tax assets, and admitted net negative (disallowed) IMR.

4.2 IMR, in general, and separate accounts

The general account capital and surplus include surplus reflected in separate accounts, which leads to a question of how to treat negative IMR in the separate account. Previously, a negative IMR balance may be recorded as a negative liability in either the general account or the separate accounts statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement. The interim guidelines allow for 'negative (disallowed) IMR' to be:

- Admitted, but limited to 10% of general account adjusted capital and surplus.
- Recognized as an asset in the separate accounts so long as the 10% general account threshold is adhered to.¹⁹

4.3 The treatment of derivatives

As discussed above, the applicability of IMR to fixed-income derivatives that hedge fixed-income investments or are used for duration management is critical for many business practices. Those that qualify as hedges for accounting purposes are treated consistently with their hedged assets (e.g., foreign-denominated bond hedged with a foreign currency swap) and not fair value. While insurers are forbidden to transact in derivatives for speculative purposes, they can take a 'portfolio' hedge position rather than an individual asset hedge (e.g., using treasury futures to hedge against future interest rate fluctuations) that do not qualify as accounting hedges. A nuance arises when those positions are reported at fair value because they do not qualify for hedge accounting, with many firms incorporating realized gains in IMR as they consider these positions part of a fixed-income portfolio. The temporary guidelines provide symmetry, with net negative (disallowed) IMR permitted for admittance if the entity has historically followed the same process for interest-rate hedging derivatives terminated in a gain position.

¹⁶ The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

¹⁷ As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

¹⁸ Other restrictions include circumstances where a reinvestment does not accompany the sale of securities because of a significant reduction in liabilities. Special rules to handle these situations are described in the sections on "Reinsurance Transactions" and "Excessive Withdrawals."

¹⁹ As explained in SAPWG postings, the separate account does not have "admitted" assets, and broad reference to "admitted net negative (disallowed) IMR" includes what is admitted in the general account and what is recognized as an asset in the separate accounts

4.4 Applicability of IMR to surplus assets

The logic underpinning the admittance of IMR has elements that suggest limiting applicability to assets earmarked for reserves that represent the value of assets required to support financial risks, benefits, and guarantees associated with the policies. Acknowledging the potential for balance sheet manipulation, intentional or unintentional, through shifting assets with losses to surplus, the guidance allows for negative IMR on surplus assets to be admitted as long as it is used in Asset Adequacy Testing (AAT). As discussed below, this approach provides a degree of conservatism in AAT. That being said, negative IMR is not allowed for asset sales that were compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to, excess withdrawals and collateral calls). Insurers will be required to provide attestations to this effect.

4.5 Reserve standards and ATT

Policy reserves are set to meet solvency objectives that include reasonable deviations from expected experience, including the ups and downs of economic cycles, and are calculated by assessing policies along with supporting assets. AAT is an additional test performed by an insurance company's appointed actuary that tests the sufficiency of assets regarding their ability to meet insurance obligations under moderately adverse scenarios. If insufficient, additional AAT reserves are required. The framework governing reserves and AAT relies fundamentally on the treatment of assets and valuation standards, including IMR. As the interest rates rapidly rose in 2022, SAPWG, which oversees guidance on the admittance of negative IMR, alerted the Life Actuarial (A) Task Force (LA TF) of potential considerations for reserving and AAT, which they oversee.

AAT requires the use of IMR (both positive and negative) in its sufficiency testing. LATF guidance, in effect, limits the requirement to the admitted portion of negative IMR. There are nuanced implications:

- AAT starts with earmarking assets and IMR to equate with liabilities and stressing them under certain scenarios. IMR does not produce cashflows. Negative admitted IMR includes IMR from non-AAT earmarked assets, essentially 'crowding out' higher-yielding assets, making the test harder to pass.
- Importantly, LATF guidance on requiring only admitted IMR to be included in AAT avoids potential double counting of losses. Surplus is lower by the non-admitted portion, and including the non-admitted portion in AAT can potentially further reduce surplus through additional AAT reserves.

These issues bubbled up in 2022 for companies granted permitted practice to admit negative IMR, to which LA TF issued guidance allowing for negative IMR in VM-20, VM-21, and VM-30 allocation to be principle-based. LA TF is now working toward broader [guidance](#) with updates [APF 2023-08](#) and [IMR Template](#) that clarify the use of admitted negative IMR in PBR for VM-20, VM-21, and VM-30, which is expected to be incorporated in the 2025 Valuation Manual. Regardless, the actuarial opinion should include an explicit statement that the impact of the negative IMR on reserve adequacy has been considered and that the reserves, after deduction of the negative IMR, still make adequate provision for the liabilities.

4.6 IMR as an asset or liability

Notice that in the general account, a positive IMR is classified as a positive liability, while a negative IMR is classified as a positive asset. Classifying positive IMR as a liability is consistent with interpreting realized gains on asset sales being mirrored with unrealized gains on cash-flow matched policies that are more valuable and represent a higher liability to the insurer. The flip side has negative IMR as an asset, consistent with interpreting realized losses on asset sales mirrored by unrealized losses on the cash-flow matched policies that are less valuable and represent an asset to the insurer.

5 What's next?

The SAPWG met on August 13, 2023, at the NAIC Summer Meeting and adopted the [Agenda items](#), including an updated negative IMR proposal which expires in January 2026, providing the community with time to develop a more robust solution. NAIC staff will request the Blanks (E) Working Group to incorporate the additional disclosure for year-end 2024

and SAPWG to form an Ad Hoc Technical Group as requested by the ACLI. As deliberations are expected to continue, a few issues to keep an eye on as stakeholders work toward a long-term solution:

- **Limiting admissibility of negative IMR to 10% of capital and surplus.** As referenced in the Executive Summary, the intent was for IMR to be unlimited for both gains and losses.²⁰ The unprecedented levels of unrealized interest rate-related loss may result in an insufficient limit, resulting in insurers limiting value-enhancing transactions as they did prior to the admittance of negative IMR. The degree to which this limitation is concerning will be visible only after insurers incorporate the new guidelines into their investment strategy and the prevailing interest rates.
- **Derivatives.** While the interim guidelines allow for the admittance of negative IMR on the range of interest rate derivatives, discussions pointed to a range of issues with inconsistent accounting treatment that may be opened up and revisited.
- **Risk Based Capital (RBC).** With negative IMR now an admitted asset, the question of whether there should be an associated RBC charge that is possibly equal to a weighted average of the associated assets.
- **AAT and Reserves.** Given the conservative guidance given so far, the impact of requiring all admitted Negative IMR to be used in AAT may bubble up.
- **Safeguards.** SAPWG may look to strengthen or amend existing safeguards (e.g., the excess withdrawal safeguard) or add to them.

Meanwhile, LATF guidance clarifies the use of admitted negative IMR in PBR for VM-20, VM-21, and VM-30, which is expected to be incorporated in the 2025 Valuation Manual. The ACLI submitted a comment letter asking to clarify whether the intent is to require all admitted negative IMR to be fully allocated in PBR and AAT, including that from assets arising from assets in a segmented surplus portfolio ([IMR Guidance](#), [APF 2023-08](#), and the [IMR Template](#)). LATF and SAPG confirmed that all admitted Net Negative IMR should be included in AAT, potentially increasing required reserves.

6 What are we optimistic about?

The complexity of IMR and the interrelated components of reserving, capital, and the broader regulatory 'toolbox' used to assess insurers' solvency is challenging, to say the least. Deliberations highlighted the critical roles played by the ACLI and the Academy, with thoughtful comments and responses from NAIC staff and regulators as stakeholders realize nuanced properties embedded within the temporary framework and possible unintended consequences of the qualifications and the need for additional changes. Public exchanges highlight the communal approach to policy design with a spectrum of groups within the NAIC involved, each of which has interrelated mandates. Ultimately this initiative will impact hundreds of \$billions, possibly \$trillions+, highlighting this seemingly obscure but incredibly impactful construct.

²⁰ [Asset Valuation Reserves and Interest Maintenance Reserves Blue Book December 2002, Report to the Financial \(E\) Committee](#)

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