

BRUCE & BRUCE

ACTUARIES AND CONSULTANTS

Fall 2026 Newsletter

Bruce & Bruce provides a wide range of actuarial and consulting services to help organizations reach their financial goals and risk objectives through the development of personalized and cost-effective solutions.

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Trending Topics in the Insurance Industry

The MYGA Opportunity in Today's Rate Environment

Interest rates have risen significantly over the past year. On September 30, 2026, Treasury yields for maturities of three, five, and seven years were 5.00%, 5.09%, and 5.19%, respectively. One year earlier, the corresponding yields were 3.61%, 3.74%, and 3.93%, representing increases of up to 139 basis points.

Higher yields allow insurers to offer more competitive MYGA rates. This creates a strong opportunity to expand MYGA sales to consumers who value stable, predictable returns. Reported MYGA sales more than doubled in 2022 to $103.7 billion during the same year that Treasury yields for maturities of three, five, and seven years rose sharply.

Regular evaluation of new-business rates helps insurers make the most of the current environment. When setting these rates, insurers should consider available market yields, profitability targets, competitor rates, and the potential effects on sales and marketing.

For existing business, however, higher rates can give policyholders more incentive to seek better rates elsewhere as their guarantee periods end. Surrender charges and market value adjustments may help discourage early surrenders, but these features do not fully eliminate rate-sensitive policyholder behavior. Insurers need to regularly review their surrender and partial withdrawal assumptions, their renewal assumptions, including rates credited after the initial guarantee period, and their liquidity needs.

Actuarial support can help insurers balance opportunities for growth with competitive pricing, customer retention, profitability, reserve adequacy, capital needs, and applicable regulatory requirements. Contact Bruce & Bruce to discuss how your organization can make the most of today's MYGA market while managing the related risks.

Chavi Paris (cparis@bruceandbruce.com) wrote the above article. Feel free to contact Chavi if you have any questions or would like to learn more.

Cash Flow Testing Reminders

Cash flow testing season is almost upon us. This is a reminder to make sure that you have processes in place to provide accurate data and information in a timely manner upon request from your actuaries. The standard data requested as of a valuation date (typically 3rd or 4th quarter) is:

- Liability - Policy inforce data
- Trial Balance
- Assets - Schedule D/E/BA/DA
- Reinsurance Treaties

In addition to the standard data requested, you should indicate any additional information about your business which may impact future business projections. For example:

- Does the company expect future expenses to be lower/higher than historical levels?
- Provide a description of material changes in asset mix.
- Describe any changes in reinvestment strategy.
- Provide current or updated investment policy statements.

Trending Topics in the Insurance Industry

Cash Flow Testing Reminders (continued)

- Provide any other information that may impact your business.
- Provide updated company experience including death claims, surrenders, partial withdrawals, and expense data.

An additional reminder for companies which have gone through an examination this year – please ensure that all findings from the examination are properly addressed. Examiners continue to focus on understanding the underlying assets, specifically any alternative assets held.

Chavi Paris (cparis@bruceandbruce.com) wrote the above article. Feel free to contact Chavi if you have any questions or would like to learn more.

Life RBC in Transition: Key Changes for Year-End 2026 and Beyond

Highlights from the SOA 2026 Valuation Actuary Symposium and the NAIC Summer National Meeting

Risk-based capital is going through its busiest stretch of change in years. Some updates take effect with year-end 2026 filings, others are being considered for 2027, and the NAIC has begun a broader review of the RBC framework. Here are the developments most relevant to management teams at fraternals and smaller life insurers.

Effective for Year-End 2026

C-1: New Factors for Structured Securities (CLOs)

The Capital Adequacy Task Force adopted new factors for collateralized loan obligations (CLOs), collateralized bond obligations (CBOs), and collateralized debt obligations (CDOs). Charges generally decrease for tranches rated A and above and increase for lower-rated tranches.

Broadly syndicated CLO tranches rated BBB minus or lower, or NAIC 2.C or lower, receive an additional 11.77-percentage-point pretax surcharge if the tranche represents 4% or less of the CLO's collateral pool, since these thinner tranches have less capacity to absorb losses. The 45% pretax charge on residual tranches is unchanged.

The overall industry impact is expected to be modest. For about three-quarters of insurers, the additional required C-1 capital is less than 0.25% of the insurer's capital and surplus.

C-2: Longevity Reinsurance

New reporting lines were added for longevity reinsurance, including longevity swaps. These arrangements transfer the risk that annuitants or pensioners live longer than expected, causing payments to continue for more years than assumed. A longevity-only deal can transfer that survival risk without moving the supporting assets or the investment risk.

A zero factor applies for 2026 while the capital framework is being developed. This should not be interpreted to mean that longevity risk requires no capital. A non-zero charge is targeted for 2027, but the methodology and amount are still being determined.

Trending Topics in the Insurance Industry

Life RBC in Transition: Key Changes for Year-End 2026 and Beyond (continued)

C-3: New Scenario Generator (GOES)

C-3 Phase I and Phase II now use the NAIC's GOES scenarios instead of the Academy generator. GOES has more volatility and weaker mean reversion, meaning interest rates may stay unusually high or low for longer before returning toward typical levels. It also produces more "lower-for-longer" paths.

Phase I now uses 200 scenarios selected from 10,000 GOES scenarios, replacing the previous 50-scenario AIRG set. The Phase I discount rate also changes from 105% of the one-year Treasury rate to 105% of the 10-year Treasury rate, which provides a partial offset to the effect of the new scenarios. Regulators view the discount-rate change as an interim solution. Phase II allows a three-year phase-in.

For a more detailed discussion of GOES and its potential impact, please refer to our Bruce & Bruce - Spring 2026 Newsletter.

NAIC Reaffirms the Purpose of RBC

The revised RBC Preamble reaffirms that RBC is intended to help regulators identify potentially weakly capitalized companies, not to rank insurers. It also states that companies should provide appropriate context when publicly disclosing RBC results. That context is especially relevant now: with several formula changes taking effect over the next two years, a company's ratio may move even if its underlying risk profile has not.

Looking Ahead to 2027

Collateral Loans

Beginning at year-end 2027, the general flat 6.8% charge for collateral loans reported on Schedule BA will be replaced with an approach based more directly on the type and value of the underlying collateral.

The practical issue for insurers is data. Companies may need loan-level information, including loan-to-value ratios, as well as independent collateral valuations to qualify for lower charges. Management should begin reviewing collateral-loan holdings and related documentation before the new requirements take effect.

C-3 Phase I Modernization

The 2026 C-3 Phase I changes retain the existing calculation framework while updating the scenarios and discount rate. Regulators view these changes as an interim step, with a broader redesign targeted for year-end 2027.

The Academy's field test is evaluating an approach that would focus more directly on the assets needed to support policy obligations under adverse scenarios, while considering the reserves already held. It also examines the treatment of fixed indexed annuities, defaults, equity exposure, and risks that may already be reflected in C-1.

These are field-test concepts, not final requirements. If a redesigned approach is adopted, companies could use a different C-3 calculation in 2027 after implementing the interim changes in 2026. RBC results could therefore change even if the underlying business does not.

Reinsurance and Other Proposals

Regulators asked the Life RBC Working Group to develop two separate charges, rather than one general charge on offshore reinsurance. The first would address the potential recapture of business ceded to reinsurers outside reciprocal jurisdictions and the risk that insufficient assets return to the insurer. The second would make the credit risk charge more sensitive to the reinsurer's financial strength, and it addresses the risk that the reinsurer simply cannot pay what it owes.

Trending Topics in the Insurance Industry

Life RBC in Transition: Key Changes for Year-End 2026 and Beyond (continued)

The NAIC is also reviewing whether the RBC formula appropriately recognizes relationships among different risks and whether additional changes are needed for areas such as residential mortgages, investment concentration, and assets held through Schedule BA structures.

What This Means for Fraternals and Smaller Life Insurers

- Run year-end 2026 C-3 Phase I using GOES early and understand what is driving the results.
- Review CLO and Schedule BA holdings to identify where the new factors may affect required capital.
- Begin gathering loan-level data and independent valuations for collateral loans ahead of 2027.
- Review reinsurance arrangements that could be affected by the developing recapture and credit-risk proposals.
- Provide context when communicating RBC results to boards, members, and other stakeholders, particularly when a change is driven by the formula rather than the company's underlying risk profile.

At Bruce & Bruce we help companies assess how regulatory changes may affect their RBC results and prepare for upcoming requirements. Readers are welcome to contact me or any member of our staff with questions about these developments or the services we provide.

Vladimir Krepkiy (vkrepkiy@bruceandbruce.com) wrote the above article. Feel free to reach out to Vlad if you have any questions or would like to learn more.

Updates in New York's 2026 Special Considerations Letter

Each year, the New York State Department of Financial Services issues a Special Considerations Letter outlining its expectations for year-end reserve adequacy testing and related actuarial filings. The letter supplements existing requirements with instructions, clarifications, and guidance on the analysis supporting an insurer's actuarial opinion. It applies to life insurers and fraternal benefit societies doing business in New York, as well as certain accredited reinsurers.

The 2026 letter retains much of the framework used for year-end reserve adequacy testing, while adding more detailed validation requirements and several changes for particular products and investments. For many smaller life insurers and fraternal benefit societies, the most noticeable effect may be additional supporting analysis and documentation.

The letter's requirements are also useful context for understanding the questions regulators are asking about assumptions, investment risks, and the support behind actuarial conclusions.

More Detail Behind the Projections

The most broadly relevant addition is a new validation appendix. For cash-flow-tested business, DFS requests annual projected income statements and balance sheets under the level interest rate scenario, both by modeled group and in aggregate. The package also calls for comparisons of recent actual experience with the first projected year, explanations of significant differences, and reconciliations between modeled assets and liabilities and statement amounts.

Updates in New York's 2026 Special Considerations Letter (continued)

Assumption validation was already part of the process. The 2026 letter makes the expected supporting information more specific. Companies may need greater coordination among actuarial, accounting, and investment teams to assemble consistent historical information and explain how it connects to projected results.

Clarifications for Deferred Annuities

Several updates address deferred annuity lapse assumptions. The letter clarifies that the guaranteed rate used in the prescribed dynamic lapse formula is the contractual minimum long-term guaranteed interest rate. It also makes clear that the low-lapse requirement for annuities with guarantees of 3% or more applies when low interest rate conditions arise during the projection period, rather than only at the valuation date.

For contracts with a market value adjustment, the letter adds an exemption from the dynamic lapse formula in Item 9 and requires commentary on the MVA's effectiveness and limitations. Contract features such as caps and the interest rate basis used in the adjustment matter to that assessment. The separate sensitivity-testing language still warrants review before treating this as a broader exemption.

Additional Changes for Particular Circumstances

Other updates may be significant where the relevant business or assets are present:

- Private and illiquid investments: Additional disclosure of valuation methods and transaction costs, with greater attention to uncertain or stale market values and the costs of selling illiquid assets.
- Variable and equity-linked products: Expanded standalone testing requirements, including removal of prior size thresholds for specified variable annuity testing and more explicit requirements for equity-linked products.
- Expenses and asset segmentation: Added guidance on expenses allocated to subsidiaries and disclosure of whether an approved asset segmentation plan is required.
- Reinsurance and aggregation: New disclosure of capital and surplus increases from treaties entered into during 2026, and an express restriction on offsetting certain UL secondary-guarantee additional reserves through aggregation with other business.

The practical effect will depend on each company's products, investments, and existing testing practices. We are reviewing these changes as part of year-end planning, with particular attention to the new validation package and any company-specific modeling or documentation needs. Identifying those needs early should help keep the filing process focused and avoid additional requests late in the reporting cycle.

Source: New York State Department of Financial Services, Special Considerations Relating to December 31, 2026 Reserves and Other Solvency Issues, dated August 3, 2026, compared with the June 16, 2025 letter.

Phil Deon (pdeon@bruceandbruce.com) wrote the above article. Feel free to contact Phil if you have any questions or would like to learn more.

Trending Topics in the Insurance Industry

Guest Article: Haofeng Yu from Folio Assets

VM-22 brings new demands for annuity valuation, along with opportunities to rethink the systems and processes supporting it. To explore both, I am pleased to welcome Haofeng Yu, PhD, FSA, CERA, MAAA, Founder & Principal Consultant at Folio Assets, as a guest contributor.

Folio Assets specializes in end-to-end VM-22 solutions using an open-source Python system built with optimization and governance as core values. Bruce & Bruce and Folio Assets are collaborating on VM-22 solutions, bringing these capabilities to the practical challenges of implementation and ongoing valuation.

In this quarter's guest article, Haofeng shares his perspective on approaching VM-22 as more than a compliance exercise, exploring how thoughtful implementation can support efficient valuation and better-informed decisions about reserves and capital.

We would like to thank Haofeng for his guest article in this quarter's newsletter. For questions about collaborating with Bruce & Bruce or contributing a guest article, please contact Phil Deon at pdeon@bruceandbruce.com.

VM-22: More Than a Compliance Exercise

How the new annuity reserve rules can be met cost-effectively and free up capital

For decades, insurers have set aside reserves for fixed and fixed indexed annuities using a standard formula: the same set of calculations, applied the same way by every company. That is about to change. Under VM-22, the new framework from U.S. insurance regulators, reserves for new contracts will be based on how each company's own business is expected to behave across a wide range of possible economic futures. Companies may adopt the new approach starting in 2026, and it becomes mandatory in 2029 for companies that do not qualify for the small-company exemption.

Most companies see the switch as another regulatory cost to absorb. We see it differently. Done well, VM-22 pays back on three levels: it keeps you compliant, it can be run cost-effectively despite heavier requirements, and it opens the door to optimizing your reserves and the capital behind them.

Compliance	**Efficiency**	**Optimization**
Get it right, and explain it clearly.	Meet new demands efficiently.	Lower reserves, free up capital.

1. Compliance: Getting the Foundation Right

Under VM-22, the reserve is no longer a single calculation. A company projects its non-variable business forward under a large set of economic scenarios set by regulators, from steadily rising interest rates to sudden drops and everything in between, and holds enough to see it through the more difficult outcomes.

The calculations are only part of the work. Regulators and auditors will want to know why the numbers are what they are: which assumptions were used, why they are reasonable, and how the new reserve compares with the one the company holds today. In our recent work on a block of fixed annuities, the new reserve and the existing formula reserve landed close together, but not in the same place. Explaining that difference clearly was as much a part of the job as producing the number.

2. Efficiency: Meeting Heavier Requirements Cost-Effectively

VM-22 is a heavier lift than today's formula reserves. A single calculation becomes a thousand economic scenarios, each projected decades into the future. Assumptions have to be set, justified and reviewed. Governance, documentation and communication requirements all grow. Even run well, VM-22 will likely cost more to produce than the formula reserve it replaces.

VM-22: More Than a Compliance Exercise (continued)

The real question is how much more. Bolting each new requirement onto existing systems and processes is expensive. On the commercial actuarial software most of the industry relies on today, the added workload brings license fees that grow with users and modules, computing grids sized for the largest run, and analysts sitting hours for results. Those costs repeat in each reporting cycle.

We take a different route. Our engine is built on an open, Python-based platform and uses parallel computing to spread the work across many processors at once. It produces compliant results quickly, without per-seat license fees, on ordinary hardware or the cloud, so meeting the new requirements costs considerably less than extending legacy systems would. Fast runs also make it practical to explore the questions that lead to the third level.

3. Reserve Optimization: Making Capital Work Harder

This is where VM-22 departs most sharply from the old rules. Under the formula approach, the reserve depends mainly on the product. Under VM-22, it also depends on how the business is managed: which investments back the product, how cash is reinvested as it comes in, and how closely assets are matched to the payments owed to policyholders. Two companies selling identical annuities can hold different reserves simply because they manage them differently.

That turns three everyday decisions into levers on the reserve: the starting investment portfolio, the reinvestment strategy, and the broader asset-liability management approach. For example, on a recent fixed annuity block, simply restructuring the starting investments, from a single bond to a series of bonds timed to match expected payments, changed the reserve noticeably. Choosing these levers well can lower the reserve required for the same business and free up capital to support growth.

Rather than testing a handful of options by trial and error, we treat these choices together as an optimization question: within the company's investment policy and risk appetite, which combination protects the company best in difficult scenarios while keeping the reserve, and the capital behind it, as efficient as possible? The same analysis feeds back into pricing and product development. Teams can see how a product feature or a crediting decision will affect reserves and capital before the product reaches the market, not after.

A Note for Smaller Companies

Many smaller insurers qualify for the small-company exemption and can keep using today's formula reserves. There is no requirement for them to move. But because a VM-22 reserve reflects how a company actually invests and manages its business, it can come out lower than the formula reserve. For some exempt companies, that alone may make VM-22 worth a look. A consultative review of the annuity portfolio is a practical, low-commitment way to see what the reserve impact would be before making any decision.

The Bottom Line

Companies writing non-variable annuities may apply VM-22 to contracts issued from January 1, 2026, and must apply it to contracts issued from January 1, 2029, unless they qualify for the small-company exemption. Preneed annuities, GICs, funding agreements and stable value contracts are outside its scope. That is the minimum. The companies that also run their valuations efficiently, and use the new rules to optimize how they invest, reinvest and design products, will turn a regulatory requirement into a competitive advantage. With adoption open from 2026, now is the time to start, or, for exempt companies, to find out whether opting in would pay.

If you would like to talk about where your company stands, we would welcome the conversation.

Haofeng Yu (haofeng.yu@folioassets.com) wrote the above guest article.

Trending Topics in the Retirement Plan Space

Rising Interest Rates: Impacts on Defined Benefit Pension Plans

As interest rates continue to rise, defined benefit pension plans ("DB Plans") may experience meaningful changes in their financial position. Understanding these impacts can help plan sponsors make informed funding, investment, and risk management decisions. Below are several key areas that may be affected.

Pension Liabilities

As interest rates increase, the present value of future pension benefit payments generally decreases. As a result, liability measures that are tied to market-based interest rates typically decline.

For many plan sponsors, this can be a positive development, as lower pension liabilities often translate into reduced pension obligations reported on corporate financial statements and, in some cases, improved funded status.

Plan Assets

The impact of rising interest rates on plan assets depends largely on the plan's investment strategy.

For plans with significant allocations to fixed income securities, rising interest rates generally result in a decline in bond values. Consequently, while pension liabilities may decrease, plan assets may also decline in value.

Given this dynamic, plan sponsors should periodically review their investment policy and asset allocation strategy to ensure they remain aligned with the plan's objectives and the current interest rate environment. An asset-liability study can also be a valuable tool for evaluating whether the investment portfolio appropriately reflects the characteristics and duration of the plan's liabilities.

Lump Sum Payments

While rising interest rates typically do not affect the underlying pension benefit a participant has earned, they do affect the calculation of the benefit's present value when paid as a lump sum.

In general, higher interest rates produce lower lump sum values. Most DB Plans determine lump sum payments using segment interest rates that are based on a prior period. As a result, there is often a lag between changes in the interest rate environment and their impact on participant lump sum payments.

For example, lump sum payments made during 2026 may be based primarily on 2025 interest rates, while lump sum payments made during 2027 may reflect the higher interest rates experienced during 2026. Plan sponsors considering pension risk transfer or other de-risking strategies should be aware of this timing when evaluating future lump sum windows or settlement opportunities.

How Bruce & Bruce Can Help

Rising interest rates create both opportunities and challenges for defined benefit pension plans. Whether you are evaluating funding strategies, reviewing your investment policy, assessing lump sum liability exposure, or considering broader de-risking initiatives, Bruce & Bruce can help you understand the financial implications and develop an appropriate course of action.

Contact Bruce & Bruce to discuss how changes in the interest rate environment may affect your defined benefit pension plan.

Jonathan Rhoda (jrhoda@bruceandbruce.com) wrote the above Retirement Plan Space article. Feel free to contact Jonathan if you have any questions or would like to learn more.

About Bruce & Bruce

Bruce & Bruce has been providing value-added consulting services for life and health companies since 1929. We are experts in insurance products and retirement plans and provide guidance in these areas to help foster the success and growth of your business. Our consulting services include, but are not limited to the following: Actuarial, Marketing, Life Insurance and Annuity Product Development, Reserve Calculations, Compliance, Financial Reporting, Strategic Advisory, Enterprise Risk Management, Merger & Acquisition Analysis, Financial Projection Models and Retirement Plan Solutions.

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