

ASOP No. 2—March 2013

Appendix 2

Comments on the Exposure Draft and Task Force Responses

The exposure draft of this revised actuarial standard of practice (ASOP), titled *The Determination of Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*, was issued in March 2003, with a comment deadline of August 15, 2003. Fifteen comment letters were received. The ASOP No. 2 Task Force carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters and the task force’s responses. Unless otherwise noted, the section numbers and titles used below refer to those in the exposure draft. Where the task force changed a term between the exposure draft and the final standard (for example, replacing *company* with *insurer*), the comment reflects the original term used by the commentator, whereas the response uses the term as it appears in the final standard.

GENERAL COMMENTS	
Comment	A few commentators stated that the use of the terminology “redetermination (or initial determination)” in the title and the reliance on the term “redetermination” in the standard was unnecessarily obtuse.
Response	The task force agreed and revised the standard to utilize the term “determination.”
SECTION 1. PURPOSE, SCOPE, CROSS-REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator observed that this standard is limited in scope by two other standards, ASOP No. 15, <i>Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts</i> , and ASOP No. 24, <i>Compliance with the NAIC Life Insurance Illustrations Model Regulation</i> . The commentator also suggested that the scope be expanded to allow for future standards that may take precedence over the current standard.
Response	The task force agreed that future standards might take precedence over current ones, but believed that it was beyond the scope of the standard to provide for possible future standards.
Comment	The task force solicited comments on whether the scope should provide guidance in other areas such as health or credit insurance policies with nonguaranteed elements. The general consensus of the commentators was that the scope was appropriately determined.
Response	The task force agreed with the general consensus and made no change in scope.
Comment	One commentator suggested that variable products be included in the examples of policies with nonguaranteed elements.
Response	The task force agreed and added variable products.
SECTION 2. DEFINITIONS	
Section 2.2, Applicable Law	
Comment	One commentator suggested that sections 2.2 and 4.2(j) may place an excessively burdensome requirement on the actuary to recognize and document all applicable law in the determination of nonguaranteed charges or benefits.
Response	The task force believed that applicable law should be considered and added language to section 3.1 to make this clear. Section 4.2 was modified to reflect appropriate documentation of the applicable law.

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New section 2.3, Determination Policy and section 2.4, Policy (now section 2.5)	
Comment	One commentator questioned the dual usage of the word “policy.” The standard utilizes the term to refer to life insurance policies (contracts) and to refer to the determination policy of the company. The commentator suggested that the dual usage might be confusing.
Response	The task force made clarifying changes to the standard to distinguish between the terms “policy” and “determination policy.” The term “policy” is used exclusively to refer to contracts of insurance while the term “determination policy” is used exclusively to refer to the determination policy of the insurer.
Section 2.3, Nonguaranteed Charge or Benefit (now section 2.4)	
Comment	One commentator suggested that the examples of nonguaranteed charges or benefits be expanded to include the “mortality and expense risk charge” commonly found in variable life products.
Response	The task force expanded the list to include expense charges.
Section 2.4, Policy (now section 2.5)	
Comment	Several commentators suggested changes to this definition to improve the description of “group life insurance and annuity certificates with nonguaranteed charges or benefits that operate in substantially the same manner as individual life policies and individual annuity contracts with respect to nonguaranteed charges or benefits.”
Response	There was clear support in the comments for including group life insurance and annuity certificates in the definition of policy. However, there was no clear consensus on significant improvements to the definition. After review, the task force concluded the original definition was most appropriate.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Advice on Redetermination Policy (now titled Advice on Determination Policy)	
Comment	A few commentators stated that there was insufficient guidance in this section as to what the actuary should consider in advising the company on determination policy. Comments included various suggestions for items to be added to the list of company objectives.
Response	The task force considered changes but determined that “stated marketing, financial, and other objectives” was sufficiently broad and flexible for guidance. The task force, however, added an additional sentence to provide for consideration of legal and regulatory requirements.
Section 3.2, Redetermination of Nonguaranteed Charges or Benefits (now titled Determination of Nonguaranteed Charges or Benefits)	
Comment	One commentator suggested that the standard should provide guidance on the impacts of capital gains and losses on nonguaranteed charges or benefits.
Response	The task force believed that section 3.3 gives the actuary appropriate flexibility to address capital gains and losses.
Section 3.5, Illustrations Not Subject to ASOP No. 24 (now titled Nonguaranteed Charges or Benefits Used in Illustrations)	
Comment	Several commentators questioned the clarity and objective of treating the determination of illustrated nonguaranteed elements the same as the determination of nonguaranteed elements.
Response	The task force clarified the section.
Comment	One commentator recommended that a statement be added that anticipated experience should not reflect any assumed improvement beyond the current date.
Response	This ASOP applies only to illustrations that are not subject to ASOP No. 24. The task force was not aware of any requirement such as that proposed by the commentator with respect to such illustrations.
Comment	One commentator suggested the standard should provide guidance regarding the timing of conducting tests of illustrated nonguaranteed charges or benefits.
Response	The task force discussed timing, but decided the actuary should have flexibility in this matter.

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Comment	One commentator noted that section 3.5 used the phrase “currently anticipated experience” while other parts of the standard used “anticipated experience.”
Response	The task force replaced the word “currently” with “reasonably.”
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.2, Documentation (now section 4.2, Disclosure)	
Comment	Several commentators made general comments that the documentation section seemed overly burdensome.
Response	The task force added the phrase “when appropriate and available” to provide more flexibility in disclosure.
Comment	Regarding section 4.2(c), a few commentators remarked that the documentation of the impact of changes in determination policy may be beyond the scope of the actuary’s responsibilities, as the company establishes determination policy.
Response	The task force agreed and deleted the phrase.
Comment	Regarding section 4.2(f), a few commentators stated that the documentation of all specific nonguaranteed charges or benefits might be overly burdensome.
Response	The task force believes that the standard of practice, when taken in conjunction with ASOP No. 41, <i>Actuarial Communications</i> , gives the actuary sufficient flexibility to determine the method, means, and amount of disclosure necessary to describe specific nonguaranteed charges or benefits.
Comment	Regarding section 4.2(i), one commentator suggested that documentation of all sensitivity tests performed and the results of all sensitivity tests might be overly burdensome.
Response	The task force agreed and changed the wording of section 4.2(i).