

**Appendix 2**

**Comments on the Exposure Draft and Responses**

The exposure draft of this revision to ASOP No. 24, *Compliance with the NAIC Life Illustrations Model Regulation* (hereafter *Model*), was issued in April 2006 with a comment deadline of August 1, 2006. Seven comment letters were received, some of which may have been submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Task Force to Revise ASOP No. 24 carefully considered all comments received, and the Life Committee and the ASB reviewed (and modified, where appropriate) the proposed changes to the ASOP. Summarized below are the significant issues and questions contained in the comment letters and the responses to each. The term “reviewers” includes the task force, the Life Committee, and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the final revised ASOP.

<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.8, Nonguaranteed Element</b>	
Comment	One commentator suggested adding “caps” for index life insurance products as an example of a nonguaranteed element.
Response	The reviewers agree and revised the final sentence in section 2.8, Nonguaranteed Element.
<b>New section 2.9, Nonguaranteed Element Framework</b>	
Comment	One commentator suggested it would be useful to include the definition of dividend framework from ASOP No. 15, <i>Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance</i> , so that it could be referenced in section 3.4, Disciplined Current Scale.
Response	The reviewers agree but believe a broader definition applicable to both participating policies with dividends and policies with other forms of nonguaranteed elements would be appropriate and therefore added a new section 2.9, Nonguaranteed Element Framework. Use of this defined term in section 3.4, Disciplined Current Scale, clarified the meaning there.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.4, Disciplined Current Scale</b>	
Comment	One commentator pointed to the need for more precise use of language. In particular, the commentator provided an alternate draft of section 3.4.1 and suggested changing “methodology” to “method,” and “gender” to “sex.”
Response	The reviewers believe the terms “methodology” and “gender” are clear and consistent with current usage in other ASOPs and made no change.
Comment	One commentator raised the issue of whether the S&P 500 Index could be considered an “other source” used in support of the investment return experience factor developments for indexed life insurance products.
Response	The reviewers agree the S&P 500 Index could be considered an “other source” for an equity-based investment return assumption but believe sufficient guidance is provided within section 3.4.1 and made no change.

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Comment	One commentator suggested inserting language that defines “recent” in the determination of investment return factors.
Response	The reviewers do not believe a single time period as a definition of “recent” is appropriate. The context of “recent” can vary based on the particular investment type and the nonguaranteed element framework.
Comment	One commentator suggested that reference to an adjustment for default costs is redundant since actual investment experience already reflects default costs.
Response	The reviewers believe reference to default costs was appropriate to clarify that these costs should be taken into account in the investment return determination. To the extent that investment experience already reflects these defaults costs implicitly, no further adjustment for default costs is required. The reviewers clarified section 3.4.1(a) to state that investment experience is net of default cost.
Comment	One commentator suggested that reference to “equity-indexed life insurance products” be changed to “indexed life insurance products” and that more guidance be given regarding interest rates that may be illustrated for these types of products.
Response	The reviewers agree. The reference to equity-indexed life insurance has been broadened to refer to indexed life insurance. The guidance has been expanded in section 3.4.1(a) to include considering the characteristics of the underlying index when setting investment return assumptions based on recent actual experience.
<b>Section 3.7, Illustrations on Policies In Force One Year or More</b>	
Comment	One commentator suggested that the ASOP be revised to permit an illustrated scale, for policies in force one year or more, to be in compliance with the <i>Model</i> if it is not more favorable than the currently payable scale.
Response	The reviewers disagree. The <i>Model</i> requires that the illustrated scale can not be more favorable to the policyholder than the lesser of the disciplined current scale and the currently payable scale.
Comment	Two commentators suggested that the conditions under which the actuary may determine that a disciplined current scale continues to be in compliance with the <i>Model</i> without revising experience factors and deriving a new disciplined current scale should in all cases be “since the scale was last certified.”
Response	The reviewers agree that under section 3.7(b), it is acceptable practice for the actuary to compare (1) the scale changes since the development of the disciplined current scale most recently certified to (2) the changes in experience assumptions following the development of the disciplined current scale most recently certified. Therefore, the reviewers modified section 3.7(b).
Comment	One commentator suggested that the operation of a closed block pursuant to ASOP No. 33, <i>Actuarial Responsibilities with Respect to Closed Blocks in Mutual Life Insurance Company Conversions</i> , is considered self supporting. The illustration for a closed block policy should reflect the operating rules of the closed block and be considered self supporting.
Response	The reviewers recognize the validity of the issue raised in the comment and clarified section 3.7 to include closed blocks.
<b>Section 3.8, Changes in Practice</b>	
Comment	One commentator suggested that reinsurance agreements, hedging strategies, and new or revised investment strategies could impact assumptions and cause them to differ from recent experience.
Response	The reviewers agree and added these examples to the ASOP under new subsections 3.8(d) and (e).

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<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Prescribed Statement of Actuarial Opinion</b>	
<b>Note: This section was renamed in the global update of PSAO and deviation language.</b>	
Comment	One commentator stated that it was unclear in section 4.1(a) if the certification requires an explicit statement as to whether—versus whether or not—the currently payable scale has changed for reasons unrelated to experience change.
Response	The reviewers agree and modified the statement in the certification to state “whether or not” in place of “whether.”
Comment	One commentator questioned if the disclosures in section 4.1(c) and (d) with respect to inconsistencies are required in the certification even if there were no inconsistencies.
Response	The reviewers believe that these disclosures are required only if there are inconsistencies. The reviewers clarified the conditions under which disclosures must be made.
<b>APPENDIX</b>	
Comment	One commentator suggested that the historical regulatory issues be expanded to include more information regarding the purpose and dates during which the Armstrong Commission operated.
Response	The reviewers agree and added the dates of operation of the Armstrong Commission to appendix 1 but believe a description of the purpose of the Armstrong Commission is beyond the scope of the ASOP.