NOTE: This ASOP is no longer in effect.
It has been replaced by ASOP No. 15, Doc. No. 102,
which the ASB adopted in March 2006.

ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 15

Dividend Determination for Participating Individual Life Insurance Polices and Annuity Contracts

Revised Edition

Developed by the
Life Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
December 1997

(Doc. No. 061)

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January 1998

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts

FROM: Actuarial Standards Board (ASB)

SUBJ: Revised Actuarial Standard of Practice No. 15

This booklet contains the final version of a revised edition of Actuarial Standard of Practice (ASOP) No. 15, *Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts*.

Purpose of Revision

As originally written, ASOP No. 15 (doc. no. 023, adopted by the ASB in 1990) was primarily concerned with the determination of dividends. It also included, however, one section (originally numbered 5.15) that provided some general advice on the illustration of dividends. With the adoption in 1995 of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*, it was clear that some revision to ASOP No. 15 would be necessary if only to resolve any internal inconsistencies that might have been created by the existence of two different ASOPs on the same subject.

Actuarial Standard of Practice No. 24 was created in conjunction with the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation* (hereafter the *Model*). The *Model* itself was drafted to accomplish specific regulatory objectives. ASOP No. 24 concerns itself with guidelines for compliance with the *Model*. This revised edition of ASOP No. 15 (which contains not only the changes exposed as a proposed amendment (see below) but formatting changes as well) addresses only what is standard actuarial practice with respect to business that is not subject to or represented as being in accordance with the *Model*.

Exposure Draft

The first amendment to ASOP No. 15 was exposed for review in April 1997 with a comment deadline of September 2, 1997 (which was later extended to October 1, 1997). One comment letter was received. For a discussion of the points that were raised in that letter and how the committee addressed them, please see appendix 2.

Format Changes

A number of format changes have also been made since publication of the original standard. The ASB voted in May 1996 to change the format of all future actuarial standards of practice. Thus, sections 3 and 4 of the original standard now form an appendix titled, Background and Current Practices. Further, sections 5 and 6 of the original standard have now been renumbered as sections 3 and 4. The "new" sections 3 and 4, along with sections 1 and 2, now form the actual standard of practice. The heading *Preamble*, which used to apply to the first four sections of the standard, has been deleted. The board made these format changes to help the reader distinguish between a standard's substantive requirements and language intended for general information.

The Life Committee thanks those who provided input before and during the exposure process. The ASB voted in December 1997 to adopt the revised edition of ASOP No. 15.

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ACTUARIAL STANDARD OF PRACTICE NO. 15

DIVIDEND DETERMINATION FOR PARTICIPATING INDIVIDUAL LIFE INSURANCE POLICIES AND ANNUITY CONTRACTS

Revised Edition

STANDARD OF PRACTICE

Section 1. Purpose, Scope, and Effective Date

1.1 Purpose—This standard of practice describes the basic responsibilities of the actuary in the application of sound actuarial principles and practices to the determination of dividends for participating individual life insurance policies and annuity contracts.

1.2 Scope—This standard applies to dividends illustrated or distributed under the provisions of participating policies issued for delivery in the United States by mutual and stock life insurance companies and by fraternal societies and associations. For a stock company, it also applies to transfers from any participating account to any stockholder or nonparticipating account.

This standard addresses the determination of currently payable dividends. With respect to the closely related process of determining illustrated future dividends for both in-force business and new business, this standard shall apply except for (1) business subject to state regulation not materially different from the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation* (hereafter the *Model*), adopted by the NAIC in December 1995; or (2) business for which illustrations are represented as being in accordance with the *Model*. In these two situations, Actuarial Standard of Practice (ASOP) No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*, shall apply in place of this standard.

This standard does not address the determination of divisible surplus, i.e., the aggregate amount of dividends to be distributed to policyholders. This determination is a decision to be made by company management in light of many factors, the most significant being the continuing solvency of the company and its ability to fulfill all contractual obligations.

Individual life insurance policies and annuity contracts may be composed of several distinct agreements, each of which has a defined consideration and benefit structure. For example, in addition to the basic benefits, a life insurance policy may include disability and accidental death benefit provisions, term riders, etc. This standard may be applied separately to any type of participating agreement.

1.3 Effective Date—This revised standard is effective for work performed after April 1, 1998.

Section 2. Definitions

The definitions below are defined for use in this actuarial standard of practice.

2.1 Contribution Principle—The *contribution principle* requires that aggregate divisible surplus be distributed among policies in the same proportion as the policies are considered to have contributed to divisible surplus.

2.2 Experience Factor Class—A group of policies for which dividends are determined by using a common numerical value of a particular experience factor. Examples of experience factor classes are claims, expense, investment income, termination, tax, and other factor classes.

2.3 Experience Factors—Those elements that reflect actual experience. A particular experience factor reflects actual experience of a specific type. Examples of experience factors are investment income rates, mortality rates, termination rates, and expense rates.

2.4 Policies—Unless otherwise specified, the word *policies* in this standard means both policies and annuity contracts.

2.5 Policy Factors—Those elements that reflect the assumptions inherent in the standard against which experience is measured. They are based on the guarantees or underlying actuarial structure of the policy. Examples of policy factors are cash values, reserves and their associated net premiums, gross premiums, policy loan interest rates, and the rates of interest and mortality used in calculating cash values and reserves.

2.6 Termination Factors—Annual rates of termination of insurance for reasons other than claim.

Section 3. Analysis of Issues and Recommended Practices

3.1 Contribution Principle Is Generally Accepted Practice—The use of the contribution principle in determining dividends is generally accepted practice in the United States. The following are important considerations for the actuary in working with the contribution principle.

3.1.1 Disclosures Concerning Contribution Principle—The actuary's report should include a statement that the contribution principle has been followed. If it has not been followed, the report should explicitly state any deviations and their rationale.

3.1.2 Operation over Extended Period, and Required Disclosure—In its pure form, the contribution principle applies to each year's divisible surplus. However, the contribution principle can also be related to divisible surplus over an extended period of time when constraints on divisible surplus or the dividend distribution system prevent the application of the principle each year.

In such event, the procedures that lead to the longer-term operation of the contribution principle should be described in the actuary's report.

3.2 Process of Dividend Determination—The process of dividend determination leads to a formulation that is used to calculate specific dividends. This process always requires the use of policy and experience factors. However, those factors may or may not appear in the formulation actually used to calculate the dividends.

Dividend determination is a process subject to practical constraints. The application of this standard may reasonably be limited by the cost of calculation, the size of a particular group of policies, the cost and practical difficulty of making a dividend scale change, and other similar conditions and circumstances.

3.2.1 Simplified Procedures and Required Disclosure—When it would be impractical to apply this standard directly to all policies and benefits, the actuary may continue a dividend scale or use approximations or simpler processes and formulations. When such actions are taken, their rationale and impact should be disclosed in the actuary's report.

3.3 Policy Factors—The use of actual or approximate policy factors is generally accepted actuarial practice.

In the calculation of dividends for a particular policy, the actuary may decide that the policy factors may be the actual factors of that policy or they may be reasonable approximations to the actual factors when practical considerations indicate the need for such approximations.

3.3.1 Disclosures Concerning Policy Factors—The actuary should include in the report a description of the policy factors and of any changes in practice with respect to their determination for the period covered by the report.

3.4 Experience Factors—The experience factor for a given type of experience may have several different numerical values. For example, the investment income experience factor may vary by policy loan rate. Sections 3.4.1–3.4.6 below provide the actuary with important considerations regarding experience factors.

3.4.1 Actual or Similar Experience—As used in this standard, *actual experience of an experience factor class* means experience and trends in experience to the extent that they are determinable, available, and statistically credible. When such suitable data are lacking, experience factors may be based on actual experience

and trends in experience of other similar classes of business either in the same company or other companies or from other sources, generally in that order of preference.

3.4.2 Projection of Experience Trends—If any projection of experience trends is made in determining the experience factor value of any factor class, then such trend projections to the same point in time should be made uniformly for all classes. Such projections should be limited to a relatively short time frame (for example, to reflect the average experience expected during a period for which a dividend scale is likely to remain appropriate), and, in particular, they should be used in a consistent manner both for current dividends for policies in force and for illustrated future dividends.

3.4.3 Disclosures Concerning Experience Factors—The actuary's report should describe the experience factor values used. If projection has been used, the type and extent of usage should be stated.

The actuary's report should include an identification for the period covered by the report of all changes in values of experience factors and of any changes in practice with respect to determination of experience factor classes or placement of policies within them.

3.4.4 Differences between Classes—When there is more than one factor class with respect to a particular experience factor, differences in values should be based on differences in actual experience between the classes.

The mortality claim factor may be the same for policies with different experience, as long as this difference is appropriately charged for elsewhere. For example, the mortality claims factor used for permanent policies resulting from term conversion may be the same as that for newly issued insurance, even though the experience is different, provided that the appropriate charges for the differences in mortality experience are charged to the term policies.

An example of such a situation might be grouping of underwritten new business policies of a particular whole life plan with conversions from term policies to that same plan. Although the company anticipates different mortality and lapse experience from these two sets of policies, it may have established an overriding agreement with the converting policyholders to treat them in all respects identically to those who purchased underwritten whole life policies. This agreement may be explicit; it may be implicit in the wording of the conversion guarantee; or it may be implicit from prior company practice. It may cause the dividend scale to be based strictly on the experience of underwritten policies despite the fact the scale also applies to some non-underwritten policies.

3.4.5 Disclosure of Differences between Classes—In the report, the actuary should identify each such difference and be prepared to provide a demonstration to support such differences.

3.4.6 Uniform Criteria—The placement of a policy within one experience factor class or another should be based on uniformly applied criteria designed to group together policies with similar levels of experience. With regard to claim factor classes, the actual occurrence or absence of a claim on a particular policy should not be a criterion for class placement of that policy.

3.5 Claims Factors—Statistical data demonstrate significant and valid variations in claims rates by age, sex, and duration for most coverages subject to this standard. An organized set of internally consistent experience factors corresponding to all ages will be considered as one factor in defining a claims factor class. Similarly, an entire set of experience factors by age and sex, or by age, sex, and duration, will be considered as one factor in defining a claims factor class. Sections 3.5.1–3.5.2 below provide the actuary with important considerations regarding claims factors.

3.5.1 Other Claims Factor Class Distinctions—Distinctions in claims factor class may also be made on the basis of risk selection class, selection process, marketing method, policy provisions, plan, premium rate, geographic location, size of policy, and date of policy issue.

3.5.2 Disclosure of Other Basis for Distinctions—If a basis different from any of those referred to in section 3.5.1 is used, such other basis should be stated in the report, along with an explanation of the rationale and effect of such other basis.

3.6 Investment Income Factors—The investment income experience factor generally reflects the investment experience, after investment expenses, of the line of business for which dividends are being determined. This experience may include capital gains and losses. Furthermore, investment income may be reduced by taxes. Alternatively, such taxes may be treated separately (see section 3.9). Sections 3.6.1–3.6.3 below provide the actuary with important considerations regarding investment income factors.

3.6.1 Effect of Policy Loans—It is generally accepted practice to reflect the effect of policy loans in the investment income factors. The effect depends on the policy loan interest rate, the policy loan expenses, and whether policy loan interest is aggregated with other investment income recognizing the utilization rate of loanable funds (which may depend on the contractual loan interest rate, the plan, and the size of policy) or whether policy loan interest is passed through directly to borrowing policyholders.

3.6.2 Portfolio Average and Investment Generation Approaches Are Acceptable—The use of either the portfolio average approach or the investment generation approach is considered generally acceptable

practice. The detailed procedures for implementing either approach should have a sound theoretical basis.

The portfolio average approach for determining investment income, excluding policy loans, for a given block of policies averages the investment income over all groups of policies or over a specific group of policies supported by a portfolio of investments (e.g., a segmentation approach). The investment generation approach recognizes separately for each group of policies the effect of investable cash flow—amount, timing, and rollover—and the applicable actual investment rates. Various mixed approaches are also acceptable.

3.6.3 Disclosures Concerning Allocation of Investment Income—The actuary's report should describe in appropriate detail the approach used for allocating investment income to the policies covered by the report. Furthermore, if the approach for a given group of policies has been changed, or if a previously unused approach is to be introduced for a new group of policies, the actuary's report should state that fact and should include a full description of the nature, rationale, and effect of such new or revised approach.

3.7 Termination Factor—Termination factors display significant variation by the time elapsed since policy issue. Other elements that have a significant impact on termination factors include age at issue, sex, marketing method, frequency of premium payment, plan, and size of the policy. An organized set of internally consistent experience factors corresponding to the preceding elements will be considered as one factor in defining a termination rate factor class.

3.8 Expense Factor—Expense incurred on behalf of a group of policies may in fact depend on most or all of the various elements present in the policies and on the risks insured. Such elements include, but are not limited to, the items listed elsewhere in this standard that affect claims, investment income, and termination factors. Some expenses are direct in that they can be specifically related to a particular policy. Other expenses, such as general overhead costs, are indirect. Sections 3.8.1–3.8.3 below provide the actuary with important considerations regarding expense factors.

3.8.1 Allocation of Costs—Marketing, underwriting, and other costs connected with the acquisition of policies may be allocated to all policies or may be recognized specifically as nonlevel costs to be charged to a policy and amortized. Select mortality savings may be used as an offset to these costs.

In the determination of unit expense rates for dividend purposes, direct costs should be charged to the groups of policies generating those costs and indirect costs should be allocated using sound principles of expense allocation. To the extent that nonlevel costs are amortized, the amortization should be based on realistic interest and termination rates appropriate for the groups of policies to which they are applied.

3.8.2 Expense Factor Classes—An *expense factor class* is defined as a group of policies that share a consistent and uniformly applied approach for assessing expenses among policies within that group. More specifically, such a group of policies shares a common set of unit expense rates. Those unit rates may be a combination of amounts that, for example, are applied per policy, termination and claim; per unit of risk, coverage, premium, loading, reserves, cash value, and expected claims; and per year of premium paying period and coverage period. Further, any of these unit rates may vary by issue age or policy duration and may be modified for tax status, risk class, policy size, or other elements. In addition, when there is amortization of nonlevel costs, a common approach is necessary for that amortization, as well as a common interest rate and set of appropriate termination rates.

There is considerable latitude in allocating indirect costs within various groups of policies. Amortization periods and patterns also vary widely. Different approaches may have been taken at the inception of various historical blocks of business. These variations make reconciliation of different expense factor classes a complex process. One approach to reconciliation is to consider the total expenses charged to one class in relation to another. Total expenses charged to a class are those based on the unit expense rates for that class with due regard for the amortization of nonlevel expenses.

3.8.3 Test of Consistency, and Required Disclosure—A minimum test of consistency between two expense factor classes is that any difference in the total expense charged to each class should be justifiable and in accordance with sound principles of expense analysis. The actuary should include a statement to this effect in the report.

3.9 Tax Factor—Tax factors may be incorporated in the determination of dividends. Details of taxation may vary widely, depending on the application of law and regulation in various jurisdictions. Differences in dividends resulting from differences in taxation should reflect the elements addressed in the tax laws.

Any variations in tax factors used in determining dividends should reflect corresponding variations inherent in the applicable laws and regulations imposing that tax and should be consistent with other experience factors.

3.10 Charge for Stockholder Retention—An important element in the determination of dividends for stock company participating business is the charge for stockholder retention. This charge can be reflected at an aggregate level in determining divisible surplus. Alternatively, the charge can be a separate factor in the formula for the dividend scale or can be implicitly included as a part of one or more of the other experience factors. Stockholder retention charges may vary by series, type of policy, etc. Stockholder retention charges ordinarily should not be changed from the scale of charges used in the original dividend illustration. If the retention charges are changed from the scale of

charges used in the original dividend illustrations, corresponding changes should ordinarily be made for all policies in force.

3.10.1 Disclosures Concerning Stockholder Retention Charges—The actuary's report should describe the method used by the company for stockholder retention charges. If the dividend scale contains a specific experience factor for such charges, the actuary's report should describe the stockholder retention factors used and any changes during the year in the values of these charges.

3.11 Adjustments to Dividends—Adjustments to dividends are frequently made for a variety of special reasons, such as the following:

a. to reflect unusual gains or losses on certain supplementary benefit riders;

b. to reflect losses arising from the presence of settlement option guarantees;

c. to smooth the transition from one dividend scale to another;

d. to provide consistency in quantity discounts made to varying degrees in the gross premium structure;

e. to serve as a balancing item so that aggregate dividends equal aggregate divisible surplus;

f. to distribute gains from extraneous sources such as non-par benefits or lines of business; and

g. to smooth the incidence of dividends within a dividend scale by policy duration.

3.11.1 Disclosures Concerning Dividend Adjustments—The actuary's report should describe the nature and purpose of any special adjustments that have been made to dividends. If the basis of determining a special adjustment differs among groups of policies, the actuary's report should describe the bases employed and the actuary should be prepared to provide appropriate demonstrations to support such differences.

3.12 Termination Dividends—The preceding sections have primarily been directed toward the determination of annual dividends. A number of companies also provide for termination dividends payable upon events such as death, maturity, and surrender. Termination dividends paid on death, maturity, and surrender generally reflect a policyholder's share of surplus that has not been distributed through the annual dividend. This surplus may be generated by investment in common stocks and real estate, but other types of gains, including non-investment gains, may also be recognized. The termination dividend program may be a part of a recurring process by which such gains are distributed, and/or it may be a one-time distribution over a period such as one to three years.

3.12.1 Disclosures Concerning Termination Dividends—The actuary's report should specifically state whether termination dividends equitably reflect the incidence, size, and growth of the policy's share of the amounts previously accumulated on behalf of the policies on which such dividends are payable, whether differences in termination dividends among different policies reflect differences in the corresponding amounts accumulated, and whether termination dividends are expected to be recurring and/or for a temporary period. The actuary's report should include a description of the process used to determine termination dividends, the sources of funds or the types of investment gains that are being used to support the dividend, and any changes in practice with respect to the determination of termination dividends since the last report.

3.13 Separation of Accounts—Determination of dividends requires analysis of the experience of the participating block for which the dividends are being determined. Maintaining separate accounts for participating business and for nonparticipating business, and by line within each of these businesses, may be helpful for this purpose. If separate accounts are utilized, they should be maintained using generally accepted accounting/actuarial standards and principles, and/or standards and methods defined by statute or regulation. If separate accounts are not utilized, the actuary's report should describe the methods used to determine the earnings for each participating line. Furthermore, if any amounts have been removed from the experience of the participating line in a manner similar to a transfer of funds from a participating account to a nonparticipating and/or the stockholders' account, the actuary's report should include information comparable to that which would have been provided if separate accounts were maintained.

3.13.1 Disclosures Concerning Separation of Accounts—The actuary should state in the report whether a separation of accounts is maintained and, if it is, whether it is maintained on the basis of statutory or regulatory standards and methods and/or generally accepted accounting/actuarial standards and principles.

3.14 Participating Accounts of Stock Companies—Amounts transferred from a participating account to a nonparticipating account and/or the stockholders' account should be reasonable in amount and should be reasonably consistent from year to year. There are various measures that could be used to test reasonableness. One is comparing the gross transfers to the stockholders' account over recent fiscal periods. Another is the proportion that the transferred amount represents of the total earnings in the participating account for the same fiscal period and whether this proportion is materially larger than in recent fiscal periods. A significant consideration is the extent to which the participating account has been funded with amounts transferred from the nonparticipating account and/or the stockholders' account. Any transfer that represents a refund of such contributions with a reasonable rate of return thereon should ordinarily be satisfactory. Finally, the impact on the current dividend scale for policies in a participating account should be considered. Ordinarily, material increases in transfer levels from a particular block of participating policies should not be made if they would impair the company's ability to maintain the current dividend scale on that particular block of participating policies.

3.14.1 Disclosures Concerning Participating Accounts—The actuary should report, or incorporate by reference, the current earnings and policyholder surplus of each participating account, the amounts proposed to be distributed to policyholders or proposed to be transferred among the several accounts, and, for a stock company, the amounts proposed to be transferred to a nonparticipating account or the stockholders' account. The report should describe the basis on which such transfers are determined, and the actuary should state why the transfers are reasonable or unreasonable. The report should also indicate whether, in the actuary's judgment, the transfers might impair the company's ability to maintain the current dividend scale.

The actuary should state in the report whether a current limitation exists, by reason of charter, statute, or other regulation, on amounts transferred from a participating account to a nonparticipating account and/or the stockholders' account.

3.15 Actuary's Responsibility—The actuary's primary professional responsibility with regard to illustrated dividends is to ensure that the dividends appropriately reflect the current financial results of the company and are related to paid dividends in an equitable, justifiable manner.

The methods and procedures stated in this standard are intended to apply to currently payable dividends and, where applicable, to illustrated future dividends for both in-force and new policies. When an experience factor value differs when applied to new policies from the value of the same factor applied to older policies, the difference(s) must be based upon sound data, reasonable expectations, and equitable methods. Other considerations regarding the actuary's responsibility are as follows:

3.15.1 Conservatism—The actuary may find it desirable to assume a conservative posture in determining an experience factor value applicable only to new or recent issues, if such value differs from values used for any existing policies. In such a case, it is important to bear in mind the degree of uncertainty that exists when factor variations are based upon limited experience data.

3.15.2 Testing and Disclosure Concerning Supportability of Dividend Scale—The actuary should conduct tests of illustrated dividends that are adequate to judge whether those illustrated dividends could be paid in the near future. If there is a substantial probability that the illustrated dividend scale will not be supportable in the near future, the actuary should disclose this, and consider the appropriateness of recommending a reduced scale now.

3.15.3 Effect of Time Periods on Illustrated Dividends—Illustrated dividends may vary significantly between companies using the portfolio average method and those using the investment generation method. This difference is primarily due to the difference in time periods over which an investment generation is determined. For the portfolio method, the time period is the age of the oldest outstanding

investment. For the investment generation method, the time period may be as short as a week or a month or as long as many years.

3.15.4 Disclosure of Time Period—The actuary's report should identify the time period used to determine the portfolio or investment generation rate of return for policies to which the illustrated dividends apply, as well as describing any other relevant experience factors.

Section 4. Communications and Disclosures

4.1 Actuarial Report—Whenever an actuary advises an insurance company on dividends, either current dividends or, where applicable, illustrated dividends, a written report should be prepared that documents the advice. Such a report should include a statement describing the framework of facts, assumptions, and procedures upon which the advice was based.

4.2 Disclosures Concerning Process of Dividend Determination—The actuary's report should include a description of the process used to determine dividends as well as the manner in which the policy and experience factors are reflected in that process. The report should also describe the formulations used to calculate dividends.

4.3 Other Disclosures Specified in the Standard—Additional disclosure requirements are referred to in the following sections:

3.1.1 Disclosures Concerning Contribution Principle
3.1.2 Operation over Extended Period, and Required Disclosure
3.2.1 Simplified Procedures and Required Disclosure
3.3.1 Disclosures Concerning Policy Factors
3.4.3 Disclosures Concerning Experience Factors
3.5.2 Disclosure of Other Basis for Distinctions
3.6.3 Disclosures Concerning Allocation of Investment Income
3.8.3 Test of Consistency, and Required Disclosure
3.10.1 Disclosures Concerning Stockholder Retention Charges
3.11.1 Disclosures Concerning Dividend Adjustments
3.12.1 Disclosures Concerning Termination Dividends
3.13.1 Disclosures Concerning Separation of Accounts
3.14.1 Disclosures Concerning Participating Accounts
3.15.2 Testing and Disclosure Concerning Supportability of Dividend Scale
3.15.4 Disclosure of Time Period

4.4 Deviation from Standard—An actuary must be prepared to justify the use of any procedures that depart materially from those set forth in this standard and must include, in any actuarial communication disclosing the results of the procedures, an appropriate statement with respect to the nature, rationale, and effect of such departures.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes, but is not part of the standard of practice.

Background

The determination of dividends on participating policies was a fundamental part of actuarial practice in the United States before the founding of formal actuarial organizations. Principles were defined early and have not changed. Practices have changed. Broad averaging of experience was generally used until the early 1970s. Because of newly emerging products with differentiated pricing, newly emerging differences in experience factors, and increased computer speed and capacity, dividend practices shifted toward more refined reflections of cost and income.

In 1976, the Society of Actuaries appointed a Committee on Dividend Philosophy to consider this subject. Building on the work and recommendations of that committee, the American Academy of Actuaries Committee on Dividend Principles and Practices formulated a set of *Recommendations* for the participating individual life insurance business of mutual companies that was adopted by the Board of Directors of the Academy in 1980. In 1985, the Academy board adopted a revised set of *Recommendations* that covered participating individual life insurance and participating annuity contracts of both mutual and stock companies. This standard of practice is a reformatted version of those *Recommendations*, in the uniform format adopted by the Actuarial Standards Board.

Current Practices

The Contribution Principle—Because the contribution principle provides the essential equity implied by the participating business, it is widely used in current practice.

Methods of Applying Contribution Principle—The contribution method, also known as the *source of earnings method*, is the method most commonly used to apply the contribution principle. Other methods of dividend determination described in actuarial literature include the following:

1. the asset share method,
2. the fund method,
3. the experience premium method,
4. the percentage of premium method, and

5. the reversionary bonus method.

Some of these methods, such as the percentage of premium method, refer primarily to the formulation used to calculate dividends. Other methods, such as the asset share method, refer primarily to the process used (as opposed to the wide variety of mathematical formulations that may be employed under that method).

It is the application of a particular method, by means of the experience factors, that determines whether or not it follows the contribution principle—not the method itself. Also, it may be that a particular method, which does not of itself satisfy the contribution principle, will do so when termination dividends (see section 3.12) are taken into account.

Appendix 2

Comments on the Exposure Draft
and Committee Responses

The proposed amendment to Actuarial Standard of Practice (ASOP) No. 15 was exposed for review in April 1997, with a comment deadline of September 2, 1997 (which was subsequently extended to October 1, 1997). One comment letter was received. The Life Committee of the ASB considered the questions and issues raised in the letter with care. Those questions and issues are summarized below in standard type. The committee's responses are in **boldface.**

General Observation

The commentator suggested that the revised edition of ASOP No. 15 should be titled *Dividend Determination and Certain Illustrations for Participating Individual Life Insurance Policies and Annuity Contracts,* rather than *Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts.* **The committee believes that section 1.2, Scope, effectively distinguishes those illustrations that the standard covers from those it does not, and retained the shorter title.**

Section 3. Analysis of Issues and Recommended Practices

Section 3.4.2, Projection of Experience Trends—The commentator was concerned that the caution in the proposed last sentence (*Actuaries should be aware of limitations placed on projections of experience trends by illustration regulations in effect in many states.*) might be interpreted to apply to projections other than those made for the narrow purpose of testing the supportability of illustrated dividend scales in accordance with the *Life Insurance Illustrations Model Regulation* of the National Association of Insurance Commissioners. **The committee concluded that the sentence in question was repetitive of section 1.2, Scope, and decided not to insert it in the revised standard.**