

December 15, 2014

Principle-Based Reserves (Second Exposure)  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Re: Principle-Based Reserves for Life Products

Dear ASB:

The opinions in this response are my own and do not necessarily represent the opinion of my employer. My background is as a pension actuary and not a life insurance actuary.

I read your exposure draft on Principle-Based Reserves. I think this is a special time of opportunity to provide a consistent rule across multiple areas of practice. Just as pension actuarial work impacts taxpayers, insurance actuarial work affects policy holders. I noted in your key issues section the following comment:

*"Under VM-20, the company, not the actuary, is responsible to the regulators for compliance, although one or more qualified actuaries is responsible to senior management for overseeing the calculation of principle-based reserves and for signing the PBR Actuarial Report. Actuarial Standards of Practice are directives to actuaries, and this exposure draft is intended to guide actuaries who are working on matters subject to VM-20. Text in section 1.2 is intended to clarify this issue."*

The issue of responsibility became a key issue in many of the comments in response to the current call for comments on public pensions. Question 6 of that call for comments said:

*"The current definition of an "intended user" of an actuarial communication is "any person who the actuary identifies as able to rely on the actuarial findings" (ASOP No. 41, Actuarial Communications, section 2.7). Should the ASOPs require the actuary for public pension plans to perform additional, significant work (which would be incorporated in the guidance provided in the ASOPs) that is not requested by the principal if that work provides useful information to individuals who are not intended users? Why or why not? If so, should this requirement be extended to all pension practice areas? Why or why not?"*

It appears our Life Insurance standard does not assign the same rights to policy holders that Question 6 might suggest be assigned to taxpayers. If the expanded definition of intended user is to apply to taxpayers in a public pension situation, then a similar expansion of the definition should apply across all lines of practice, including Principle-Based Reserves. A move such as that would require a significant amount of study to determine the extent of unintended consequences. I am not aware of any such study done in either practice area, including the legal impact. I mention the legal impact since pension actuaries often charge 5 digit fees to calculate 9 to 11 digit liability amounts and the business and legal aspects of changes need to be considered.

Principle-Based Reserves (Second Exposure)  
Actuarial Standards Board  
December 15, 2014  
Page 2

I encourage the ASB to view the definition of intended user in the broad context of the entire profession before singling out a single practice area for special treatment.

I encourage you to read all of the responses to question 6 in the call for comments on public pensions and consider them consistently to all lines of actuarial work. If not consistent, the Principle-Based Reserve standard should articulate precisely why it need not be subject to the same broad obligation interpretation as public pensions and other lines of actuarial work.

Sincerely,

**BOLTON PARTNERS, INC.**

A handwritten signature in black ink, appearing to read 'T. Lowman', with a long horizontal flourish extending to the right.

Thomas Lowman, FSA, EA, MAAA

cc: Mita Drazilov (ASB Pension Committee)