BY E-MAIL

April 30, 2017

Actuarial Standards Board

Re: Setting Assumptions Exposure Draft

Dear Actuarial Standards Board,

New York Life appreciates the opportunity to offer the following comments on the proposed standard on Setting Assumptions. The specific requested responses are provided below, followed by comments organized by section.

1. In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. The standard addresses this issue by including such methodology in the discussion of "assumptions" in section 1.2. Is this sufficiently clear?

    - The application of the standard to selection of methodology should be clarified. In cases where the setting of assumptions is largely inseparable from the selection of methodology, Section 1.2 says "this standard should be understood to include the selection of methodology and the matching of assumptions to the selected methodology". If, for example, an actuary is choosing between cash flow testing and gross premium valuation in order to test reserve adequacy, it is not clear how the guidance in the standard would apply to the selection of methodology. Once the methodology is selected, it is clear that the standard would apply in setting assumptions that match to the selected methodology.

2. Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?

    - We believe the guidance in the standard is sufficiently broad so as to apply across all practice areas.

3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?

    - Yes, it is clear that the practice-specific guidelines would govern in the case of a conflict. Section 3.1.2 refers to data deficiencies and Section 3.4 refers to reliance on data supplied by others, both of which are topics addressed by ASOP 23 on Data Quality. It may be helpful to consider a reference to ASOP 23 in one or both of these sections.

4. Would it be helpful to define additional terms in section 2? If so, what terms?

    - Yes, it would be helpful to define the terms "assumption" and "methodology".

5. Is the guidance in section 3.1.3(b) that the actuary should consider the reasonableness of the results from using the assumptions, and not simply the reasonableness of each individual assumption, clear and appropriate?

    - We agree that the actuary should consider the reasonableness of the results. We suggest that additional guidance be provided concerning the appropriateness of the potential adjustments to assumptions in the case that results are considered unreasonable.

    - Section 3.1.3(b) says that an actuary should "assess whether a set of assumptions is reasonable in the aggregate". We would suggest changing "reasonable" to "reasonable for the intended purpose", following language used in Section 3.1.1. For purposes such as reserves, assumptions are meant to be conservative and should not necessarily be "reasonable in the aggregate" without reference to the purpose for which they are being used.

    - Section 3.1.3(b) (2) addresses situations where one or more prescribed assumptions set by law are used and says the actuary should consider "whether the results of the analysis are reasonable treating the prescribed assumptions set by law as assumptions that are deemed reasonable and are independent of the other assumptions used." The prescribed assumptions set by law may not be independent of other assumptions used, and it is not clear why they should be treated as such.

6. Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?

    - It may be helpful to provide guidance on the severity of the sensitivity analysis to be considered. Should the actuary consider plausible sensitivities, or more extreme sensitivities, or both? It may also be helpful to provide guidance concerning the considerations if the sensitivity analysis shows that the results are particularly sensitive to a given assumption. For example, should the actuary then revisit the assumption? Or consider applying a greater margin for adverse deviation for that particular assumption?

7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?

    - The disclosure of the assumptions should include documentation of how the assumptions were developed.

<u>Section 2. Definitions</u>

Should the definition of "Entity" in Section 2.2 be expanded to include an individual or group of individuals?

Section 2.4 defines Prescribed Assumptions Set by Law as "specific assumptions that are mandated or that are selected from a specified range or set of assumptions that are deemed to be acceptable by applicable law (statutes, regulations, and other legally binding authority)." There may be instances where regulators or others provide guidance or direction as to the assumptions to be used for certain analyses outside of law or regulation. For example, the New York State Department of Financial Services Special Considerations Letter, issued as guidance to appointed actuaries on reserves and other solvency issues, specifies various assumptions to be used in asset adequacy testing. We believe it may be helpful to address situations where the assumptions are constrained by input from regulators or auditors, beyond law or regulation.

Section 3. Analysis of Issues and Recommended Practices

We believe the list of factors given in Section 3.1.1 for actuaries to consider in setting assumptions should include the following:

- **Product features that will influence policyholder behavior –** policyholders should generally be assumed to act in their own best interest, which can result in anti-selection from the company perspective. The degree to which product features and optionality give policyholders greater opportunity to act in their own best interest should be taken into consideration when setting assumptions.
- **Interdependence between assumptions –** certain assumptions may need to be dynamically adjusted based on other assumptions. For example, assumed lapse rates may need to be dynamically adjusted based on the amount of investment income assumed to be earned and credited to the policyholders. Similarly, assumed life insurance mortality may be dependent on the level of assumed lapses.
- **Modeling Limitations –** assumptions may be set in such a way as to accommodate the model's capability to reflect such assumptions.
- **Management actions or business plans**

Section 3.1.3 (d) says the actuary should "determine whether material assumptions, other than prescribed assumptions set by law, are reasonably consistent." We believe it may be helpful to clarify the intended meaning of reasonably consistent. For example, different assumptions may be updated at different times and may be based on different underlying data periods or may incorporate different levels of conservatism or optimism. Despite this, we believe an actuary may determine that the assumptions are still reasonably consistent with one another, but a different interpretation could lead to the conclusion that assumptions should be updated at the same time using data from the same period in order to be reasonably consistent.

Section 3.1.4 says that "margins may be included to allow for uncertainty in the underlying data or assumptions". It may be helpful to consider specifying that the greater the underlying uncertainty, the greater the appropriate margin.

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We are grateful for your time and attention to our comments. Please let us know if you would like to discuss this letter with us.

Sincerely,

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