Comment #4 – 3/29/19 – 8:22 p.m.

Dear Actuarial Standards Board:

Thank you for the opportunity to comment on the Exposure Draft for Actuarial Standard of Practice ("ASOP") No. 22 (Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities). I offer the following for your consideration:

**Section 2.5 ("Cash Flow Testing"):** "... resulting from economic and other assumptions in order to evaluate cash flow risks." *Economic and other assumptions* seem all-inclusive. Is there any assumption that is not *economic and other*? I suggest replacing this with something like “... resulting from an evaluation of cash flow risks.”

**Section 2.12 ("Scenario"):** "A set of economic and other assumptions used in cash flow testing.” Again, *economic and other assumptions* seem all-inclusive. Perhaps replace with something like "A set of assumptions used in cash flow testing.”

**Section 2.13 ("Subsequent Events"):** The definition does not have an end date for “Subsequent Events.” I believe the time period after the valuation date needs to be defined and suggest something like “... after the valuation date and prior to the finalization of the asset adequacy analysis.”

**Section 3.1 ("Asset Adequacy Analysis"):** In addition to choosing “... a block of assets such that the statement value of those assets is no greater than the statement value of the reserves and other liabilities being tested”, I suggest this section also include a caveat that the asset analysis performed assumes the block of assets being analyzed are not used to provide for liabilities other than those being tested by the actuary.

**Section 3.11 ("Analysis Methods"):** “In situations where cash flows are not sensitive to economic and interest rate assumptions, the actuary may consider using analysis methods other than cash flow testing.” I assume this stipulation is applicable to both the assets and the liabilities being tested.

The examples following this stipulation includes, for example, Loss Ratio Methods. Loss Ratios and possibly other methods (e.g. Completion Factors and Trended PMPM projections) may be used for short-term health care liability and asset analyses. My understanding of “economic assumptions”, however, would include many items that may impact short-term health care liabilities (e.g. fluctuations in medical care costs, medical technology, utilization of medical services, etc.). Accordingly, my understanding of “economic assumptions” would preclude the use of any method other than cash flow testing in the evaluation of assets and liabilities for short-term health care products. But I assume that is not the intent of the ASOP.

If the intent is to stipulate insensitivity to economic and interest rate assumptions as to their impact on only assets (e.g. the short-term assets but not the corresponding short-term liabilities being tested), I suggest that this be clarified in the introductory paragraphs in this Section 3.11.

If the term “economic assumptions” is somehow defined to exclude, for example, the impact on liabilities of fluctuations in medical care costs, I suggest the term “economic assumptions”
be defined in the Definition Section of this ASOP (i.e. Section 2). But I am at a loss of trying to define something as generic as “economic assumptions.”

In fact, the term “economic” is used in many places throughout the ASOP in conjunction with assumptions, scenarios, and conditions. Other than the above-noted concern regarding this Section 3.11, I have not tried to determine other areas where the generic reference to “economic” may create uncertainties or unintended interpretations that may require definition.

Section 3.1.5 ("Aggregation During Testing"): Following the first sentence "When performing an asset adequacy analysis, the actuary should not use assets or cash flows from one block of business . . . ": I suggest a follow-up sentence saying something like "If the actuary is not reviewing a company's total book of business, the actuary should state that no portion of the block of assets used for the analysis should be used to cover liabilities not being considered by the actuary's analysis".

Section 3.4 ("Documentation"): It seems to me that the two uses of the phrase “should consider” in this Section 3.4 should be replaced with “should”. That is, I assume documentation and retention is not discretionary and any such documentation should be such that another qualified actuary could assess the reasonableness of the actuary’s work.

Again, thank you for the opportunity to present the above for your consideration.

Jim

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