TO: Actuarial Standards Board (ASB)

FROM: John Robinson FSA, FCA, MAAA

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 22, Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities

COMMENTARY:

I submit these comments on my own behalf, not on behalf of my employer. Furthermore, my comments may not be limited to the items that are being revised at this time.

My primary concerns are that the standard be drafted in the best way possible, and that the provisions adequately address the requirements that, in my professional experience, would be applicable.

1. The term "liability" is a defined term. The phrase “reserves and other liabilities” occurs at least fifteen times in the text. The term “reserve” is not a defined term.

I suggest you consider the following options:

(a) Provide a definition for “reserve”, clearly differentiating it from “liability”. (Otherwise, it would be redundant.)

(b) Eliminate the part of the phrase “reserves and other”, and simply use “liabilities”.

2. Definition of “Investment Yield Risk”:

Consider the following situation:

The expected investment yield is 5%; the base to which it is applied is expected to be $400; so the cash flow from the invested asset at the end of one year is expected to be $20.

The realized investment yield is 4%; however, the base to which it is applied turns out to be $500; so the cash flow from the invested asset at the end of one year is the same $20.

If the definition requires the cash flows to be different, then the departure of the realized 4% from the expectation of 5% would not be a risk event.

Please assess whether this is your intent.

3. Section 3.1.1.b. Demonstration of Conservatism

I find it interesting that the text says “may demonstrate this degree of conservatism”.

The concern I have is: what constitutes such a demonstration? In my experience, the actuary will typically state, presumably as a matter of belief and without any real proof, that such reserves are conservatively calculated. Therefore, an example of what such demonstration might consist of would be welcome.

4. Section 3.1.1.c. Demonstration of Immaterial Variation:

This section suggests that certain variable annuities may be subject to treatment other than cash flow testing. While it is only offered as an example, I foresee actuaries seizing upon this as a reason to not perform cash flow testing on these variable annuities. However, all variable annuities have interest rate risk in their general account component, and interest rate risk is at the heart of cash flow testing (e.g. NY7). Therefore, I would be hesitant to support such a proposition. I ask that you consider using a different example.

5. Section 3.1.2 Discount Rates:

I note that this section does not indicate the purpose for which the discounting is being performed. Assuming that it is for the purpose of discounting the ending surplus (whether book or market) back to the valuation date, I offer two comments:

(a) Discounting the ending surplus is a step that need not be performed in situations such as the following: the company has two blocks, a life insurance block and an annuity block; the actuary projects them for the same 30-year horizon; the life block yields an ending surplus of A and the annuity B. Because the horizons are the same, the actuary can add A and B, and accurately infer whether the reserves are adequate overall. The actuary could not do this if the horizons were different.

(b) The actuary should not be discouraged from using a high discount rate, even if it is artificial, since it may produce a conservative result. So, I ask you to consider framing any discount rate recommendation as a “floor” discount rate.

Thank you.

John Robinson