

Dear Sir or Madam:

The following comments are being submitted on behalf of Lincoln Financial Group in response to the Actuarial Standards Board Request for Comments on the Proposed Revision of Actuarial Standard of Practice (ASOP) No. 2. The following are our comments:

1. The exposure draft says, "The ASOP is being updated to reflect current practices and provide additional guidance on the determination of NGEs." (Page v.) The exposure draft provides guidance that is not currently part of the existing ASOP and addresses issues with a degree of specificity that is absent from the existing ASOP. We recommend removing the language that the ASOP is being "updated to reflect current practices" and including language that says that the revised ASOP is not intended to apply to determinations that occurred prior to the publication of the revised ASOP.
2. The exposure draft includes a definition for "Determination Policy" and a definition of "NGE Framework" that includes, among other things, the Determination Policy. The additional parts of NGE Framework are "how policy classes are established, and the practices used to determine NGE scales." These items, however, are typically considered as part of the Determination Policy. Breaking the concepts of "Determination Policy" and "NGE Framework" into two separate, overlapping components may create confusion and may artificially limit what actuaries consider to be part of the Determination Policy. We recommend using a single label, "Determination Policy," to include all three components of "NGE Framework."
3. The exposure draft says, "The actuary should provide advice on developing, modifying, or applying the determination policy that is consistent with the following: (a) NGEs for in-force policies are revised only if the anticipated experience factors have changed since issue or since the previous revision." Paragraph 3.2(a). This language is too prescriptive. The current version of ASOP 2 does not identify a baseline. This language creates unnecessary limitations and presents issues in circumstances where original pricing documents are unavailable or incomplete, or where intervening regulatory or other actions impact projections that were not anticipated prior to those actions. Another example is the scenario of annually declared crediting rates changed not only because of anticipated experience, but to respond to other factors in the market place in a proactive manner. We recommend removing this language.
4. The exposure draft says "The actuary should provide advice on developing, modifying, or applying the determination policy that is consistent with the following:...(b) NGEs for in-force products are not revised with the objective or recouping past losses or distributing past gains." Paragraph 3.2(b). This language is too prescriptive. The revised ASOP does not offer advice on how to comply with this language. This language creates unnecessary limitations and presents issues in circumstances where original pricing documents are unavailable or incomplete, or where intervening regulatory or other actions impact projections that were not anticipated prior to those actions. We recommend removing this language.

5. The exposure draft contains a number of lists of examples. Examples include Paragraphs 2.1, 2.2, 2.3, 2.4, 3.1, etc. We recommend adding language in each instance to make clear that the lists of examples and considerations are not exclusive. The exposure draft also contains lists of things that the actuary should consider. Examples include Paragraphs 3.2, 3.2.1, 3.2.2, 3.3.1, 3.4, 3.4.1, 3.4.2.2, etc. We recommend adding language in each instance to make clear the actuary may consider similar items consistent with the foregoing considerations and that consideration of each enumerated item is appropriate but not mandatory depending upon the circumstances.
6. Given the number of NGEs in a typical policy form, and the number of policies and blocks of policies that a life and annuity insurer typically administers, we are concerned that the application of the revised ASOP 2 to all NGEs will create a significant burden on many insurers. We recommend including language acknowledging that consideration of resources, costs, and burdens are appropriate when complying with the revised ASOP.
7. Paragraphs 3.4.1, 3.4.2.4, and 4.1 introduce the idea that actuaries should consider profitability by duration in determining or redetermining NGE scales. It is impossible to know if this is a consistent practice across the industry, and this could be too prescriptive for all circumstances. We recommend removing this language.

Thank you for the effort put into this so far and for the opportunity to comment. We look forward to seeing the final draft of this important ASOP.

Sincerely,

Laura Muse, FSA, MAAA  
VP & Actuary, In-force Business Leader  
Lincoln Financial Group