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**Submitted electronically to [comments@actuary.org](mailto:comments@actuary.org)**

July 15, 2019

Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036-5805

Re: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 2 (Nonguaranteed Elements for Life Insurance and Annuity Products)

Dear Actuarial Standards Board:

On behalf of our members, the Insured Retirement Institute (“IRI”)<sup>1</sup> appreciates the opportunity to provide comments to the Actuarial Standards Board regarding the recent exposure draft of proposed revisions to Actuarial Standard of Practice (ASOP) 2 – Nonguaranteed Elements for Life and Annuity Products. As the leading financial services trade association for the retirement income industry, IRI and our members have a vested interest in the requirements imposed by actuarial professional standards.

This letter outlines several serious concerns with the exposure draft of ASOP 2 and strongly urges the ASB to abandon the current exposure draft and assemble a separate exposure draft closer to the text and spirit of today’s ASOP 2. As the exposure draft’s approach is fundamentally flawed, this letter will refrain from proposing edits to specific language and instead focus on thematic concerns which apply throughout the draft. First, the exposure draft expands the scope of the ASOP materially and replaces its high-level guidance with specific and restrictive requirements constraining the management of NGEs. Because of this, the exposure draft’s tone and content more closely resemble a regulation rather than a professional standard of practice for the actuary performing the assignment. Additionally, despite its intention to “reflect current practices” (Transmittal Memorandum, page v), the exposure draft introduces a prescriptive, rules-based framework inherently incompatible with contemporary, principles-based management of NGEs. Due

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<sup>1</sup> IRI is the leading association for the entire supply chain of insured retirement strategies, including life insurers, asset managers, and distributors such as broker-dealers, banks and marketing organizations. IRI members account for more than 95 percent of annuity assets in the U.S., include the top 10 distributors of annuities ranked by assets under management, and are represented by financial professionals serving millions of Americans. IRI champions retirement security for all through leadership in advocacy, awareness, research, and the advancement of digital solutions within a collaborative industry community.

to the exposure draft's flawed approach, the ASB should withdraw the exposure draft and submit a second exposure draft much closer in text and spirit to today's ASOP 2 for public comment.

The exposure draft expands the scope of the ASOP significantly, encompassing several areas in which distinct ASOPs already exist (e.g. pricing, assumption setting, experience review). The actuary analyzing NGEs may not have responsibility for all activities encompassed, leading to difficulties in ensuring adherence to the proposed standard. A more effective approach would confine the scope of ASOP 2 to the determination of NGEs and assume related but separate activities (e.g. experience review) have concluded. The increased scope also introduces the insurer's governance framework, in which the actuary may have limited influence or control.

The exposure draft's rules-based approach contrasts with today's ASOPs (notably recently developed ASOPs on pricing and assumption setting, as well as ASOP 2 as currently written), which generally provide high-level, principles-based guidance on best practices and recommended considerations. Throughout the exposure draft, the new language prevents the actuary's exercise of professional judgment by directing specific courses of action rather than identifying issues for the actuary's consideration. Due to its detailed requirements, the exposure draft would severely constrain the application of insurer discretion and actuarial judgment, creating a difficult framework to operate within. Because of its prescriptive spirit, the exposure draft reads more like a regulation than a professional standard. The exposure draft also establishes detailed restrictions on an insurer's management of NGEs (e.g. Sections 3.2.a., 3.4.1.c., and 3.4.2.4.c.), which is unusual outside of a regulation. The industry strongly prefers the spirit of other ASOPs because it allows for the application of actuarial judgment and recognizes the existence of practical considerations.

The guidance in the exposure draft conflicts significantly with established practice throughout the industry, which has been partially informed by the existing language in ASOP 2. In particular, sections 3 and 4 impose significant and onerous new requirements, including restrictive standards on the policy used to determine NGEs (section 3.2) and a specific requirement that new NGE scales for in-force products not cause anticipated profitability to increase relative to initial expectations in any period (section 3.4.2.4.c.). These requirements will materially increase resource and maintenance costs for insurers and reduce operating flexibility. Also, permanently anchoring profitability to initial pricing prohibits an insurer from updating its profit expectations on inforce business to reflect changes in its operating environment (e.g. required capital, competitive environment). Additionally, the ASB's ASOP 54 on the Pricing of Life and Annuity Products does not anticipate that the initial pricing analysis would in any way constrain future management of NGEs, which suggests that no such constraint is intended to exist. A simpler and more practical approach would be to directly prohibit unwanted behaviors (e.g. changing NGEs in an adverse direction when not supported by experience).

The exposure draft also includes a voluntary survey as to industry practice within the transmittal memorandum (page vi). We would encourage the ASB to acquire a deep understanding of industry actuarial practice prior to developing a new exposure draft of possible revisions to ASOP 2.

In conclusion, the exposure draft of ASOP 2 is fundamentally flawed due to its excessively broad scope (encompassing multiple current ASOPs) and substantial volume of specific, onerous requirements more typical of a regulation than a professional standard. Additionally, the exposure draft's prescriptive, rules-based approach is incompatible with the industry's contemporary principles-based management of NGEs. For these reasons, the ASB should discard the exposure draft and assemble a second draft closer to the

spirit and text of the current ASOP 2. IRI and our members would welcome the opportunity to assist the ASB in this effort. The modified draft should be submitted for public review and comment prior to adoption.

Thank you again for the opportunity to provide these comments. Please feel free to contact the undersigned if you have any questions or would like to discuss this matter further.

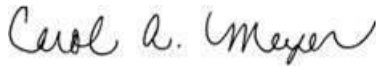
Sincerely,



Jason Berkowitz  
Chief Legal & Regulatory Affairs Officer  
Insured Retirement Institute



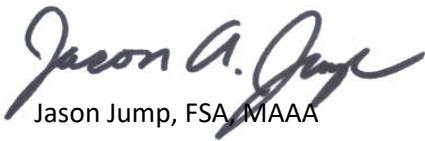
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