BY E-MAIL

July 15, 2019

Actuarial Standards Board

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

Dear Actuarial Standards Board,

New York Life appreciates the opportunity to provide the following comments on the Proposed Revision of Actuarial Standard of Practice (ASOP) No. 2 – Nonguaranteed Elements for Life Insurance and Annuity Products.

1. The distinction between Anticipated Experience Factors (AEFs) and other assumptions should be clarified. For example, taxes are included as an example of an AEF in §2.1, but could be interpreted otherwise given the language in §3.4.2.3.d.
2. Both terms "Nonguaranteed Element" (NGE) and "Scale" are defined in §2. However, in §3, there is frequent reference to NGEs. It may be more appropriate to refer to NGE scales.
3. In §2.4, we recommend changing a portion of the last sentence to read "... include credited interest in excess of the minimum guaranteed rate or the spread deducted from investment income when determining the credited interest in excess of the minimum guaranteed rate, cost of insurance . . . ."
4. §3.1.f refers to distribution strategy, target markets and competitive objectives being included in the NGE framework. §3.2.1.d and §3.2.2.f refer to marketing objectives. We recommend that all four items be included in each of the sections.
5. §3.2.a states that NGEs are revised only if AEFs have changed.

   §3.2.1.e notes that capital requirements may be considered in the Determination Policy.

   §3.2.2.c states that the actuary should take reserving requirements into account when providing advice on applying the Determination Policy.

   §3.4.2.3.d states that the impact of changes in reserve and capital requirements should be taken into account when the actuary is considering whether to recommend a revision to NGE scales.

§3.4.2.3.f states that prospective profitability using updated AEFs and other updated assumptions should be taken into account when the actuary is considering whether to recommend a revision to NGE scales.

§3.4.2.4.c states that the profitability of the new NGE scales from the time of revision should not be greater than that using the original NGE scales and the original AEFs, holding all other assumptions constant.

These sections appear to be inconsistent. We believe that it is appropriate to reflect all assumptions when revising NGEs, taking policy and rider provisions and applicable law into account.

6. There is concern that §3.2.a could be interpreted to mean that a specific NGE scale could be changed only if its "corresponding" AEF changed (e.g., that expense loads could be changed only due to changes in anticipated expense assumptions). We recommend that the language be clarified to avoid this ambiguity, for example, changing it to read "An NGE scale may reflect changes in one AEF or in a combination of AEFs."
7. We recommend that both reserving and capital requirements be included in §3.2.2.c.
8. We recommend clarifying §3.4.b to state that a specific NGE scale may be determined based on a combination of AEFs and other assumptions.
9. We recommend that §3.4.c be changed from "the consistency of NGE scales with policy provisions, including rider provisions" to "policy and rider provisions."
10. We recommend that the sentence following §3.4.f be changed to read "The actuary should also take into account illustration requirements when determining illustrated NGE scales."
11. We note that the sentence immediately preceding §3.4.1 allows for the use of approximation methods such as smoothing and interpolation when determining NGE scales. However, §3.4.2.4.c requires that the profitability by duration of any revised NGE scales must be no greater than that of the original NGE scales. This could result in an inability to smooth or interpolate. It seems reasonable to allow an actuary to do this, so long as there is no bias to reduce policy benefits or values. New York State Department of Financial Services Insurance Regulation 210 §48.2(g)(3) allows the board-approved criteria serving as the basis for determining NGEs to reflect "averaging, smoothing, interpolating and rounding that are reasonable in relation to the values and benefits provided and that do not have a bias toward reducing policy benefits or values."
12. We recommend that §3.4.1.d be changed from "whether the NGE scales are consistent with the language of the policy" to "policy and rider provisions."
13. We recommend that the example about crediting rates in §3.4.2.3.g be changed to read " . . . when changing credited interest rates, depending on the framework for setting those rates, some actuaries might look only at changes in investment income, while others may take additional factors into account."

We are grateful for your time and attention to our comments. We are available to discuss this letter at your convenience.

Sincerely,

Stephen J. McNamara
Vice President & Actuary
New York Life Insurance Company