

Comment #3 – 7/11/19 – 8:51 a.m.

USAA Life Insurance Company is submitting the following comments on the March 2019 ASOP 2 Exposure Draft because the Company believes that the currently exposed ASOP contains some imprecise language that, if interpreted the wrong way, could result in overly conservative pricing that would harm its members. Our hope is that the Task Force will clarify this language to avoid any ambiguity that would harm our members and consumers in general.

• Clarification of the comment about interest credited rates in paragraph 3.4.2.3.g

- The ASOP gives an example in paragraph 3.4.2.3.g that states that credited interest rate changes may only be based on changes in investment income.
- This could be interpreted to mean that the spread assumption used in determining the relationship between the investment income and interest credited rates could never be revised after issue.
- If insurers were held to this interpretation, this could have serious consequences to enforce product pricing that could prohibit insurers from offering competitively priced products in the future.
 - For Example: For an annuity product which only has one nonguaranteed element – excess credited interest – the product would typically be priced at issue with a spread assumption that was designed to be adjusted in the future to account for changes in AEFs other than the investment income AEF. If an insurer is now prevented from changing the spread assumption used in determining excess credited interest, then only changes in the investment income AEF would be able to be reflected in the excess credited interest NGE. Since this is the only NGE on the product, any other changes to AEFs, such as expenses, surrenders, etc. or changes to reserving and capital requirements, would have to be absorbed by the insurer. In other words, the insurer would be prevented from revising NGEs to bring the level of profitability back in line with the original level of profitability established at issue. This would not only be contrary to how these products were originally priced, but this would also be contrary to paragraph 3.4.2.4.c of the revised ASOP. Furthermore, newly issued spread products would have to be priced with a much larger spread assumption to reflect the fact that it would not be able to be changed after issue. This would result in overly conservative pricing which would harm consumers.
- Can the Task Force clarify whether this example was intended to be a general requirement imposed by the ASOP on setting interest credited rates, or whether it was simply an example of what an insurer could impose on itself when setting NGEs? That is, is it the intent of the Task Force to stop insurers from changing the spread assumption after the product has been issued? If this was the intent of the Task Force, we believe this requirement would prevent insurers from complying with other requirements in the revised ASOP (specifically, paragraph 3.4.2.4.c).

• Inconsistent requirements around changing NGEs

- The ASOP states that revisions to NGEs should only be based on changes in AEFs [3.2.a, 3.4.1.c, 3.4.2.4.b]

- However, the ASOP also states that the actuary should take into account factors, other than changes in AEFs, when revising NGEs [3.4.1(b-f), 3.4.2.3.(c, d), etc.].
- These two requirements would appear to be inconsistent with each other. Can the ASOP clarify this apparent inconsistency? If it is not the intent to make NGE changes based solely on the changes in AEFs, can the ASOP clarify this position by calling out this fact within the ASOP? In fact, it would seem necessary to allow the insurer to make changes in NGEs for reasons other than just strictly changes in AEFs, such as changes in reserving and capital requirements.
 - For example: In a Principles-Based Reserving environment, reserving requirements can change after issue. Being able to design and price a product to be flexible enough to respond to the dynamic reserve requirements of PBR would allow insurers to offer more competitively priced products to consumers.
- **Impractical requirement around capping the projected profit metrics at the original projection of profit metrics by duration when revising NGEs**
 - The ASOP states that the determination of NGEs should be conducted in such a way that the resulting projected profitability pattern at the time of revision does not exceed the original projected profitability pattern by duration (3.4.2.4.c)
 - In practice, it is very difficult to get the new prospective profit metric to exactly line up with the original prospective profit metric by duration.
 - We ask that the Task Force drop the requirement that the prospective pattern of profits be capped by duration. Specifically, remove the following clause from paragraph 3.4.2.4.c: “...including the prospective pattern of profits by duration,”. The revised paragraph will still retain the effect of capping the resulting projection of profitability at the original projection of profitability; furthermore, the removal of this clause should provide the actuary with the necessary flexibility they need when revising NGEs to bring the overall profitability back in line with the original projection of profitability.
- **Clarification of the requirement around capping the projected profit metrics at the original projected profit metrics when revising NGEs**
 - The ASOP states that the determination of NGEs should be conducted in such a way that the resulting projected profitability pattern at the time of revision does not exceed the original projected profitability pattern by duration (3.4.2.4.c).
 - On the other hand, when reviewing NGEs and AEFs, if the resulting projected profitability pattern reflecting the latest AEFs has drifted above the original projected profitability pattern, the ASOP does not require the insurer to revise NGEs to bring the new projected profitability pattern back down to the original projected profitability pattern. The ASOP places the section 3.4.2.4.c “cap” on the projected profitability pattern only when the insurer has elected to revise the NGEs, not when the insurer is simply reviewing and not revising NGEs.
 - Can the Task Force confirm this interpretation or further clarify the intent of the section 3.4.2.4.c “cap” in the ASOP?

Thank you for considering these comments,

Chris Hadik

On behalf of USAA Life Insurance Company