

15 July 2019

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

Dear Actuarial Standards Board,

The following comments on the Exposure Draft to ASOP 2 are often followed by suggested replacement language (indented and italicized), revised in the spirit of the comment in hopes of providing the ASB with detailed insights into the comment.

Section 3.1 should be amended to allow for the actuary's professional judgment and to recognize that an insurer may not have a well-defined NGE framework.

If, in the actuary's professional judgment, the NGE framework is absent, incomplete or needs to be updated to reflect the current environment, the actuary should consider whether the determination policy should be completed or updated.

Examples of items that a determination policy may provide guidance on are:

Section 3.2.a should be revised to allow for the insurer to break a large change in an NGE into smaller changes. For example, if a redetermination allows for a 1% decrease in crediting rates the insurer may prefer to phase this change in incrementally over a period of time. Additionally, although it seems intuitive, the language should note that the NGE change should only occur in the direction implied by the change in anticipated experience factors.

Section 3.2 should recognize the practical difficulties introduced where the NGE Framework is beyond the actuary's control.

c. The actuary may be required to deviate from guidance provided in 3.2.a. and 3.2.b. if the insurer's objectives underlying the NGE Framework are not compatible with these items.

The example from 3.2.1.f. should be moved to Section 3.2.1.a.

3.2.1.e. should remove reference to margins for profitability as it provides ambiguous guidance and appears inconsistent with the current regulatory environment.

The last section of 3.2.1. should be omitted or revised to allow for the actuary's professional judgment (this includes removal of the listed example)

The actuary may consider documenting the sources of the determination policy used in developing the advice.

The initial sentence of 3.2.2 is unnecessary and should be removed. The second sentence should be revised as follows to allow for the actuary's professional judgment.

When advising on how to apply the determination policy, the actuary should be familiar with the existing determination policy, if any, and may consider the following:

The closing statement of 3.2.2 should be revised to provide more practical guidance to the actuary for matters that may be outside of their control

If, in the actuary's professional judgment, the actuary believes that the determination policy may be inconsistent with the guidance in sections 3.2 and 3.2.1, the actuary should document the deviation.

The introductory statement of Section 3.3.1 should be revised to allow for the actuary's professional judgment.

If the policy classes have not been defined in the NGE framework, or if the policy classes may be, in the actuary's professional judgment, incomplete or inconsistent with the items below, the actuary should consider the establishment of or changes to the policy classes that meet the following conditions:

The closing statement of 3.3.1. should remove the reference to the time over which policies are issued as this concept makes sense only in the context of inforce policies.

The introductory statement of 3.3.2 should be removed as it does not allow for an appropriate level of actuarial judgment to be applied.

The closing statement of 3.3.2 should refer to policy similarities and era of issuance.

When recommending a change in the assignment of policies to policy classes, the actuary should follow the guidance in section 3.3.1 as well as the similarity of policy types and anticipated experience factors, and the period over which the policies were issued.

Section 3.4 should contain an introductory statement referring to practical constraints in the same vein as they are addressed in the current ASOP 2.

Determination is a process subject to practical constraints. The actuary may consider relevant conditions and circumstances such as the size of a group of policies, and the costs, practical difficulties, and effects of making changes to the nonguaranteed charges or benefits.

Section 3.4.1. should be clarified further to discuss how it interacts with the less prescriptive standards from the ASOP 54 that addresses pricing of new insurance contracts. Additionally, the section should be revised to allow for application of the actuary's professional judgment.

The closing statement of section 3.4.1 should be revised to be less prescriptive or to allow for application of the actuary's professional judgment.

The actuary should document the NGE determination process.

Section 3.4.2 should be revised to allow for the actuary's professional judgment.

The determination process for in-force products may consider reviewing prior determinations, analyzing emerging experience, considering whether to recommend a revision in the NGE scales, and, if a revision is to be made, determining the revised NGE scales.

The introductory statement of 3.4.2.1 should be revised to recognize practical limitations and the actuary's professional judgment.

The actuary may consider reviewing prior determinations, if available. This may include information such as previous anticipated experience factors, profitability metrics, pattern of profits, NGE scales, and other considerations.

If the information related to prior determinations is not available or incomplete, the actuary may consider reconstructing prior determinations if practicable and relevant to the redetermination analysis.

Consider if 3.4.2.2 should recognize the development of anticipated experience factors.

The opening statements of 3.4.2.2 should be revised to recognize that the experience review and assumption setting may be performed prior to and independent of the NGE determination process and also to allow for the actuary's professional judgment.

The actuary may rely on the existing experience analysis and development of anticipated experience factors, if in the actuary's professional judgment, the analysis is appropriate for consideration in the determination of the NGE scales.

If the actuary is responsible for analyzing experience, the actuary should consider relevant conditions and circumstances such as the following:

3.4.2.2 should include an additional part to recognize additional issues that may be considered in an experience analysis.

g. how experience may have been impacted by the insurer's marketing, financial, or other strategic objectives.

The closing statement of 3.4.2.2 should be revised to allow for the actuary's professional judgment. Additionally, consider if referencing the ASOP on Setting Assumptions would provide useful guidance.

The actuary should recommend that the anticipated experience factors be updated, if in the actuary's professional judgment, it is warranted by the results of the analysis.

The opening statement of 3.4.2.3 should be revised to allow for the actuary's professional judgment.

When considering whether to recommend a revision to NGE scales, the actuary may consider items such as:

3.4.2.3.h should be revised to eliminate ambiguity

h. other analyses, such as sensitivity analysis;

3.4.2.4.c. should be deleted or replaced with a statement that the actuary should determine the NGE scales with recognition of any regulatory requirements relating to profitability. Otherwise, the ASOP becomes prescriptive and limiting or provides incentive for the insurer to remove an actuary from the NGE determination process.

Section 4.1 should be retitled "Disclosures in an Actuarial Report" and the opening statement should be revised to allow for the actuary's professional judgment.

4.1 Disclosures in an Actuarial Report

When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 12, 23, and 41. In addition, based on the actuary's professional judgment the actuary may consider disclosing the following in such actuarial reports (if applicable):

Thank you for your consideration of these comments. I will be available to discuss any of these comments should clarity be sought or if there are questions (ryan.mellott@jackson.com).



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