Comment #9 – 7/15/19 – 10:36 a.m.

Below are comments submitted on behalf of State Farm Life Insurance Company regarding Proposed Revisions to Actuarial Standard of Practice (ASOP) No. 2:

1. The revisions are significantly more prescriptive for the actuary than the current ASOP. While many of the revisions seem to be reasonable, other than noted in further comments, being more prescriptive versus focusing on broad over-arching standards can result in a decreased ability to apply prudent actuarial judgment.

2. The ASOP now includes reference to maintaining profitability by duration. (3.4.1.f and 3.4.2.4(c) and 4.1.m) This needs to be thought through as requiring that profits not increase at any duration may be overly restrictive, if not impossible, to comply with. In some cases this requirement could also be in conflict with managing the policy in accordance with policy form language. It should not be the objective of a change in an NGE to increase profitability above original pricing. However, as profitability of a product can come from different sources, changing one NGE could result in a slight increase in profitability due to the impact of profitability from other NGEs. This impact could also vary quite a bit by policy duration.

3. It would seem that interest rate changes due solely to changes in market rates should be called out in a different context. Arguably, the NGE when it comes to interest rates is often the spread between the earned rate and the credited rate, not the actual credited rate.

4. Caution should be used when including examples as those could be interpreted in different ways. Example: 3.4.2.3.e states “For example, an internal rate of return metric used at issue may not be appropriate when applied to inforce products”. This statement can arguably be interpreted in 2 different ways. If an actuary determines that it actually would be appropriate to use IRR as the metric for inforce, did the actuary violate the ASOP? That doesn’t seem to be the intent, but could be construed that way. Same with the example in 3.4.2.3.g- does the wording of that example indicate that the actuary can only look at changes in investment income when changing crediting rates. Seems that it could be interpreted that way. Perhaps these types of examples are best suited for a Practice Note and not an ASOP.

____

Carl Streily, FSA, MAAA