

SECOND EXPOSURE DRAFT—June 2023

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation* was issued in July 2021 with a comment deadline of September 30, 2021. Two comment letters were received, both of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” refers to more than one person associated with a particular comment letter. The ASOP No. 24 Task Force and the Life Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the task force and committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that are suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 24 Task Force, the ASB Life Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the first exposure draft, which are then cross referenced with those in the second exposure draft.

| GENERAL COMMENTS | |
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| Comment | One commentator suggested adding guidance on various determinations relating to the hypothetical benchmark index account (BIA) as set forth in AG 49 and 49A and guidance on whether the actuary should test the hypothetical BIA. |
| Response | The reviewers believe the guidance in this ASOP is appropriate and made no change. |
| Comment | One commentator suggested adding guidance on what is considered “recent” actual historical experience, the “reasonable principles of expense allocation,” aggregation within a policy form for disciplined current scale testing, and the responsibilities of the illustration actuary vs the responsible officer. |
| Response | The reviewers believe that the guidance in this ASOP contains the appropriate level of detail and therefore made no change in response to this comment. |
| Comment | One commentator suggested changing all instances of “must” to “should.” |
| Response | The reviewers changed some, but not all, instances of “must” to “should.” |
| SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE | |
| Section 1.1, Purpose | |
| Comment | One commentator suggested making changes to the purpose section. |
| Response | The reviewers clarified the language. |

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| Section 1.2, Scope | |
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| Comment | One commentator said that the language implied that the AGs are part of the <i>Model</i> . |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested adding that the actuarial certification is “for illustrations,” referring to the AGs with Roman numerals consistent with their official titles, and moving “pursuant to applicable law” to the end of the sentence for clarity. |
| Response | The reviewers added Roman numerals to the titles of the AGs in section 2 and made other changes to clarify the language. |
| Comment | One commentator suggested deleting the last two sentences of the first paragraph in the Scope section, which repeat information contained in the <i>Model</i> . |
| Response | The reviewers agree and deleted the text. |
| Comment | One commentator suggested deleting the paragraph about what the actuary should do in the absence of applicable law. |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested changing the reference to “nonguaranteed elements payable” to “scale of nonguaranteed elements in effect for a policy form” because not all nonguaranteed elements are payable. |
| Response | The reviewers clarified the language. |
| Comment | One commentor suggested deleting the statement about conflicts with other ASOPs because this ASOP should only govern other ASOPs if the difference is due to applicable law. |
| Response | The reviewers disagree and made no change in response to this comment. |
| SECTION 2. DEFINITIONS | |
| Section 2.1, Actual Experience | |
| Comment | One commentator suggested that the definition of “actual experience” is unclear, the term is used inconsistently in the ASOP, and use of the term “trends” in the definition may be inappropriate considering the <i>Model’s</i> prohibition on the use of future trends of improvement in experience. The commentator added that “actual experience” may not need to be a defined term as it is self-defining. |
| Response | The reviewers disagree that the definition is unclear and may not be needed but clarified the language in some places where the term “actual experience” is used in the ASOP. |

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| Section 2.4, Experience Factor (now section 2.5) | |
| Comment | One commentator suggested clarifying the use of the terms “experience factors” and “assumptions” and the verbs associated with these terms throughout the ASOP. |
| Response | The reviewers clarified the definition of “experience factor” and ensured that language was consistent throughout. |
| Section 2.9, Nonguaranteed Element Framework (now section 2.10) | |
| Comment | One commentator suggested unbolding “experience factor” when referring to an “anticipated experience factor.” |
| Response | The reviewers agree and made the change. |
| SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES | |
| Section 3.1, Regulatory Requirements | |
| Comment | One commentator said the actuary should only be familiar with AG 49 and AG 49-A as applicable. |
| Response | The reviewers agree and clarified the language. |
| Section 3.2, Appointment as an Illustration Actuary (now deleted) | |
| Comment | One commentator suggested rewriting the last two sentences as guidance. |
| Response | The reviewers deleted the section because it was unnecessary. |
| Section 3.3, Illustrated Scale Requirements (now deleted) | |
| Comment | One commentator suggested deleting “requirements” from the section title. |
| Response | The reviewers deleted the section because it was unnecessary. |
| Comment | One commentator suggested replacing “illustrated scale” with “scale of NGEs currently being illustrated” because the illustrated scale, by definition, is no more favorable than the currently payable scale or disciplined current scale. |
| Response | The reviewers deleted the section because it was unnecessary. |
| Comment | One commentator suggested removing sections 3.3.1 and 3.3.2 because they contain educational text from the <i>Model</i> and do not provide any guidance. |
| Response | The reviewers deleted the section because it was unnecessary. |

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| Section 3.4, Developing the Disciplined Current Scale (now deleted) | |
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| Comment | One commentator suggested replacing the first sentence with “The actuary should ensure that the disciplined current scale meets the requirements imposed by the <i>Model</i> .” |
| Response | The reviewers deleted the section in response to another comment. |
| Comment | One commentator suggested removing the headings of subsections 3.4.1 and 3.4.2 and merging the content into section 3.4. |
| Response | The reviewers deleted section 3.4 and changed sections 3.4.1 and 3.4.2 to 3.2 and 3.2.9, respectively. |
| Section 3.4.1, Assumptions Underlying the Disciplined Current Scale (now section 3.2, Experience Factors Underlying the Disciplined Current Scale) | |
| Comment | One commentator suggested using “actual recent historical experience” to be consistent with the <i>Model</i> . |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested reviewing the use of “actual experience” and “experience factors” to align with the definitions. |
| Response | The reviewers reviewed the use of these terms, modified the definition of experience factor, and clarified the language. |
| Comment | One commentator suggested deleting overlapping guidance from the proposed <i>Setting Assumptions</i> ASOP. |
| Response | The reviewers note that the proposed <i>Setting Assumptions</i> ASOP has been withdrawn and made no change in response to this comment. |
| Section 3.4.1(a) (now section 3.2.2, Investment Return) | |
| Comment | One commentator suggested moving “default costs” to the broader list of considerations. |
| Response | The reviewers agree and made the change. |
| Comment | One commentator suggested that investment expenses may be reflected in the experience factor or treated separately as expenses and noted that this was not written as guidance. |
| Response | The reviewers clarified the language and rephrased it as guidance. |

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| Section 3.4.1(b) (now section 3.2.3, Mortality, Morbidity, and Policyholder Behavior) | |
| Comment | One commentator suggested changing the reference in the first sentence from “actual experience” to “actual recent historical experience” because the <i>Model</i> requires the use of “actual recent historical experience.” |
| Response | The reviewers clarified the reference in the first sentence to be consistent with the revised definition of “experience factor.” |
| Comment | One commentator suggested changing the reference in the third sentence from “sufficiently credible” to “credible” for consistency with the first sentence. |
| Response | The reviewers removed the reference to credibility from this section. |
| Section 3.4.1(c) (now section 3.2.3, Mortality, Morbidity, and Policyholder Behavior) | |
| Comment | One commentator suggested changing “actual experience” to “actual recent historical experience.” |
| Response | The reviewers clarified the reference in the first sentence to be consistent with the revised definition of “experience factor.” |
| Comment | One commentator suggested changing “not sufficiently credible” to “not credible.” |
| Response | The reviewers removed the reference to credibility from this section. |
| Section 3.4.1(e) (now section 3.2.5, Other Expenses) | |
| Comment | One commentator suggested replacing “use minimum expenses in the calculation of the disciplined current scale, based on” with “reflect all other expenses.” |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested deleting text in section 3.4.1(e)(1) [now section 3.2.5(a)] because it was educational and moving the guidance to the end of section 3.4.1(e). |
| Response | The reviewers clarified the language. |
| Comment | One commentator stated that the text regarding use of fully allocated expenses, marginally allocated expenses, or a GRET should be deleted because it is educational and not guidance. |
| Response | The reviewers made no change in response to this comment. |
| Section 3.4.1(f) (now section 3.2.6, Taxes) | |
| Comment | One commentator suggested replacing “recognize” with “reflect.” |
| Response | The reviewers clarified the language. |

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| Comment | One commentator said that “details of taxation” was not an appropriate phrase and suggested “taxation practices” or “taxation” instead. |
| Response | The reviewers deleted this sentence because it was unnecessary. |
| Comment | One commentator questioned the meaning of “taxes for nonguaranteed elements.” |
| Response | The reviewers clarified the language. |
| Section 3.4.1(g) (now section 3.2.7, Changes in Methodology) | |
| Comment | One commentator suggested merging this section with section 3.8 [now section 3.6] because they describe the same concepts. |
| Response | The reviewers disagree with the suggestion to merge the sections but clarified the guidance. |
| Section 3.4.1 and 3.4.2, Relationship of Actual Experience to Disciplined Current Scale (now sections 3.2, Experience Factors Underlying the Disciplined Current Scale, and 3.2.9, Changes in Actual Experience) | |
| Comment | One commentator suggested moving all trend-related guidance into one section. |
| Response | The reviewers agreed and modified the language. |
| Section 3.4.2, Relationship of Actual Experience to Disciplined Current Scale (now section 3.2.9, Changes in Actual Experience) | |
| Comment | One commentator suggested deleting the first sentence because it repeats material from section 3.4.1. |
| Response | The reviewers agree and modified the language. |
| Comment | One commentator suggested moving the last paragraph of section 3.4.2 into section 3.8. |
| Response | The reviewers included the guidance in what is now section 3.2.9. |
| Section 3.5, Requirements for Self-Support (now section 3.3, Self-Support Testing) | |
| Comment | One commentator suggested striking “requirements” from the title. |
| Response | The reviewers agree and made the change. |
| Comment | One commentator suggested striking the first sentence because it is educational text from the <i>Model</i> and does not provide any guidance. |
| Response | The reviewers agree and deleted the sentence. |

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| Comment | One commentator suggested changing from “a self-support test” to “self-support testing” because testing is an ongoing process (not a one-time action). |
| Response | The reviewers agree and made the change. |
| Comment | One commentator suggested deleting “new business” because self-support testing is also required for in-force illustrations, so new business is potentially misleading. |
| Response | The reviewers agree and made the change. |
| Comment | One commentator suggested new wording for the second paragraph to change it into guidance. |
| Response | The reviewers agree in principle and clarified the language. |
| Comment | One commentator suggested new wording for the third paragraph for greater clarity. |
| Response | The reviewers agree in principle and clarified the language. |
| Section 3.6, Requirements to Prevent Lapse-Supported Illustrations (now section 3.4, Lapse-Support Testing) | |
| Comment | One commentator suggested striking “requirements to prevent lapse-supported illustrations” from the title and replacing it with “lapse-support testing.” |
| Response | The reviewers agree and modified the language. |
| Comment | One commentator suggested adding a new first sentence: “When applicable, the actuary should perform lapse-support testing to demonstrate that new business illustrations are not lapse-supported as defined in the <i>Model</i> .” |
| Response | The reviewers agree in principle and modified the language. |
| Comment | One commentator suggested deleting the first three sentences because the <i>Model</i> doesn’t have a blanket prohibition of illustrations that are lapse-supported, and the text is educational and does not provide any guidance. |
| Response | The reviewers deleted some of the text and modified the remaining language. |
| Comment | One commentator suggested deleting the last paragraph because it was educational and not guidance. |
| Response | The reviewers disagree with deleting the paragraph but modified it to provide guidance. |

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| Section 3.7, Illustrations on Policies In Force One Year or More (now section 3.5, Illustrations of Policies In Force One Year or More) | |
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| Comment | One commentator suggested replacing the title with “In Force Illustrations,” because that is the terminology used in the <i>Model</i> . |
| Response | The reviewers believe the title is appropriate and made no change in response to this comment. |
| Comment | One commentator suggested replacing the first paragraph with new language because it was not guidance and combining it with the paragraph after item (c). |
| Response | The reviewers clarified the language in response to this comment. |
| Comment | One commentator suggested deleting the reference to in-force illustrations because the entire section is for in-force illustrations. |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested deleting reference to the illustrated scale. |
| Response | The reviewers clarified the language. |
| Comment | One commentator suggested deleting the last sentence. |
| Response | The reviewers believe the language is appropriate and made no change. |
| Section 3.8, Changes in Practice (now section 3.6) | |
| Comment | One commentator suggested merging this section with section 3.4 (now section 3.2) because they describe the same concepts. |
| Response | The reviewers disagree and clarified the language. |
| Comment | One commentator suggested adding “insurer” to the title and revising the first paragraph. |
| Response | The reviewers revised the first paragraph to be guidance and did not change the title. |
| Comment | One commentator suggested moving some text from the first paragraph into the last paragraph. |
| Response | The reviewers did not make any change in response to this comment. |

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| Section 3.12, Certification (now section 3.10) | |
| Comment | One commentator suggested adding a new first sentence and deleting most of the text about the certification and notice requirements in the <i>Model</i> because the text is educational. |
| Response | The reviewers believe the guidance is appropriate and made no change in response to this comment. |
| Section 3.13, Documentation (now section 3.11) | |
| Comment | One commentator suggested replacing “construction” with “development.” |
| Response | The reviewers modified the language. |
| SECTION 4. COMMUNICATIONS AND DISCLOSURES | |
| Section 4.1, Required Disclosures in an Actuarial Report (now Required Disclosures in Actuarial Reports and Certifications) | |
| Comment | One commentator suggested that there was no need to specify where the disclosures take place, as well as other wording changes. |
| Response | The reviewers modified the language. |
| Comment | One commentator suggested changing “must” to “should” and adding “additional.” |
| Response | The reviewers believe the language is appropriate and made no change in response to this comment. |