



ACTUARIAL STANDARDS BOARD

● **SECOND EXPOSURE DRAFT** ●

**Proposed
Actuarial Standard
of Practice
No. 24**

**Compliance with the NAIC
Life Insurance Illustrations Model Regulation**

**Comment Deadline:
September 15, 2023**

**Developed by the
Task Force to Revise ASOP No. 24 of the
Life Committee of the
Actuarial Standards Board**

**Approved for Exposure by the
Actuarial Standards Board
June 2023**

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June 2023

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Compliance with the NAIC Life Insurance Illustrations Model Regulation

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Actuarial Standard of Practice (ASOP) No. 24

This document contains the second exposure draft of a revision of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found [here](#) and submitted electronically to **comments@actuary.org**. Include the phrase [“ASOP No. 24 COMMENTS”] in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company.

The ASB posts all signed comments received on its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted on the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

For more information on the exposure process, please see the [ASB Procedures Manual](#).

Deadline for receipt of comments: **September 15, 2023**

History of the Standard

The National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation (Model)* and ASOP No. 24 were developed contemporaneously in the early 1990s, and the *Model* delegated certain authority for development of guidance in determining the disciplined current scale to the ASOP. The ASB adopted ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*, in 1995.

Since the promulgation of the original standard, life insurance product innovation has continued. In 2007, ASOP No. 24 was revised to update and reflect current, appropriate actuarial practices with respect to illustrations prepared in compliance with the *Model*. In 2015, the NAIC released Actuarial Guideline XLIX (AG 49) to clarify certain requirements of the *Model* related to policies with index-based interest credits and further amended AG 49 in September 2016. In

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December 2016, ASOP No. 24 was revised to reflect the changes effected through AG 49 and to clarify certain guidance.

In 2020, the NAIC released Actuarial Guideline XLIX-A (AG 49-A) for illustrations of policies with indexed credits linked to an index or indices sold on or after December 14, 2020. The NAIC also amended AG 49 to sunset its applicability to illustrations of policies sold on or after this date and to allow insurers to elect to apply AG 49-A to new illustrations of policies sold prior to this date that otherwise would be subject to AG 49. In 2021, the ASB decided to revise this ASOP to reflect the changes effected through AG 49-A. The ASOP was also made consistent with the current ASOP style and format.

First Exposure Draft

The first exposure draft was issued in July 2021 with a comment deadline of September 30, 2021. Two comment letters were received and considered in making changes that are reflected in this standard. For a summary of issues contained in these comment letters, please see appendix 2.

Notable Changes from the First Exposure Draft

Notable changes made to the exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency. Section numbers reflect this document.

1. In sections 1.1 and 1.2, the purpose and scope were clarified.
2. In section 2.2, a new term “applicable actuarial guideline (applicable AG),” defined to include AG 49 and AG 49-A, was introduced to genericize the guidance throughout the ASOP.
3. Section 3 was reorganized.
4. Sections on appointment as illustration actuary and illustrated scale requirements were deleted.
5. Sections on other expenses, taxes, changes in actual experience, self-support testing, lapse-support testing, and changes in practice were rephrased as guidance.
6. Sections 3.2.3 and 3.11 now reference morbidity and policyholder behavior.
7. Section 3.2 was clarified to explicitly recognize that experience factors may be developed based on a combination of the types of sources specified in this ASOP.
8. In sections 3.2.7 and 3.6, the lists of examples were modified.

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Notable Changes from the Existing ASOP

Notable changes made to the existing ASOP are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency. Section numbers reflect this document.

1. In section 2.2, a new term “applicable actuarial guideline (applicable AG),” defined to include AG 49 and AG 49-A, was introduced to genericize the guidance throughout the ASOP.
2. Section 3 was reorganized to reduce redundancy.
3. In section 3.1, the regulatory requirements were updated to include an applicable AG.
4. Sections on appointment as illustration actuary and illustrated scale requirements were deleted.
5. Sections 3.2.3 and 3.11 now reference morbidity and policyholder behavior.
6. Section 3.2 was clarified to explicitly recognize that experience factors may be developed based on a combination of the types of sources specified in this ASOP.
7. Section 3.2.2 was clarified and updated to include a reference to the scope of and any limitations imposed by an applicable AG.
8. The language on other expenses was clarified in section 3.2.5.
9. In section 3.3, the summary of *Model* requirements for the self-support test was replaced by a reference to the *Model*. The references to AG 49 were replaced with a reference to an applicable AG.
10. In section 3.7, the guidance was expanded to cover projections, models, and supporting analysis and to require the actuary to refer to ASOP Nos. 41, *Actuarial Communications*, and 56, *Modeling*.
11. Guidance on reliance was added in sections 3.8 and 3.9.
12. The guidance on certification disclosures was replaced with a reference to disclosures required by applicable law based on the *Model* in new section 4.1.
13. Disclosures were added in section 4 related to guidance in section 3.

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

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The ASB thanks everyone who took the time to contribute comments and suggestions on the first exposure draft.

The ASB voted in June 2023 to approve this standard for exposure.

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Task Force to Revise ASOP No. 24

Brian R. Lessing, Chairperson
Delmer F. Borah Donna C. Megregian
Alicia A. Carter Linda D. Rodway
Jacqueline Fallon

Life Committee of the ASB

Gabriel R. Schiminovich, Chairperson
Lisa S. Kuklinski Matt A. Monson
Donna C. Megregian Jeremy Starr

Actuarial Standards Board

Robert M. Damler, Chairperson
Elizabeth K. Brill David E. Neve
Kevin M. Dyke Christopher F. Noble
Laura A. Hanson Judy K. Stromback
Richard A. Lassow Patrick B. Woods

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

**PROPOSED REVISION OF
ACTUARIAL STANDARD OF PRACTICE NO. 24**

**COMPLIANCE WITH THE NAIC
LIFE INSURANCE ILLUSTRATIONS MODEL REGULATION**

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services in support of a certification or representation that life insurance **illustrated scales** are in accordance with the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation (Model)* or **applicable actuarial guidelines (applicable AGs)**.
- 1.2 Scope—This standard applies to actuaries when performing actuarial services in support of a certification or representation that life insurance **illustrated scales** are in accordance with the *Model* or **applicable AGs**. Such certification or representation may be made in an **illustration actuary’s** certification pursuant to applicable law based on the *Model* or may be made in the absence of an applicable law based on the *Model*.

This standard does not apply to actuaries when performing actuarial services with respect to the determination of a **currently payable scale**. When determining a **currently payable scale** or determining scales for illustrations not included in the scope of this ASOP, the actuary should refer to ASOP No. 2, *Nonguaranteed Elements for Life Insurance and Annuity Products*, or ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*.

If the actuary determines that the guidance in this standard conflicts with any other ASOP, this standard governs.

If a conflict exists between this standard and applicable law, the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

- 1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

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- 1.4 Effective Date—This standard is effective for actuarial services performed on or after two months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the standard. Definitions in sections 2.3, 2.4, 2.7, 2.8, and 2.9 are intended to conform to those in the *Model*. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

- 2.1 Actual Experience—Historical results and trends in those results.
- 2.2 Applicable Actuarial Guideline (Applicable AG)—An NAIC actuarial guideline that provides guidance on the application of the *Model*. Such actuarial guidelines include NAIC Actuarial Guideline XLIX (AG 49) and Actuarial Guideline XLIX-A (AG 49-A).
- 2.3 Currently Payable Scale—A scale of **nonguaranteed elements** in effect for a policy form as of the preparation date of the illustration or declared to become effective within the next 95 days.
- 2.4 Disciplined Current Scale—A scale of **nonguaranteed elements** for a policy form, certified annually by the **illustration actuary**, constituting a limit on illustrations currently being illustrated by an insurer that is reasonably based on recent **actual experience** and that satisfies the requirements set forth in the *Model*.
- 2.5 Experience Factor—A numerical value or set of numerical values that reasonably represents recent **actual experience** for a policy form. Examples of **experience factors** include rates of mortality, expense, investment income, persistency, and taxes.
- 2.6 Experience Factor Class—A group of policies for which **nonguaranteed elements** are determined by using common values of a particular **experience factor**.
- 2.7 Illustrated Scale—A scale of **nonguaranteed elements** currently being illustrated that is not more favorable to the policyholder than the lesser of the **disciplined current scale** or the **currently payable scale**.
- 2.8 Illustration Actuary—An actuary who is appointed in accordance with the requirements set forth in the *Model*.
- 2.9 Nonguaranteed Element—Any element within an insurance policy that affects policy costs or values that is not guaranteed or not determined at issue. A **nonguaranteed element** may provide a more favorable value to the policyholder than that guaranteed at the time of issue of the policy. Examples of **nonguaranteed elements** include policy dividends, excess interest credits, mortality charges, expense charges, indeterminate premiums, and participation rates and maximum rates of return for indexed life insurance products.

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- 2.10 Nonguaranteed Element Framework—The structure by which the insurer determines **nonguaranteed elements**. This includes the assignment of policies to **experience factor classes**, the method of allocating income and costs, and the structure of the formulas or other methods of using **experience factors**. For participating policies, this would include the dividend framework defined in ASOP No. 15. For life policies within the scope of ASOP No. 2, the **nonguaranteed element framework** would include the concepts of policy class, determination policy, and anticipated experience factors.

Section 3. Analysis of Issues and Recommended Practices

- 3.1 Regulatory Requirements—The *Model* contains detailed instructions, technical requirements, and prohibitions regarding many aspects of life insurance illustrations. The actuary should be familiar with the *Model*, any applicable state law based on the *Model* (including state variations), and any **applicable AG**.

When an illustration falls within the scope of an **applicable AG**, the actuary should take into account the requirements of the **applicable AG** when determining whether the **illustrated scale** complies with the requirements of the *Model*.

- 3.2 Experience Factors Underlying the Disciplined Current Scale—When setting **experience factors** underlying the **disciplined current scale**, the actuary should use recent **actual experience** that reflects the insurer’s **nonguaranteed element framework**.

As required by the *Model*, the actuary should use **experience factors** that do not include any projected trends of improvements in experience or any assumed improvements in experience beyond the effective date of the **illustrated scale**.

In addition, the actuary should take into account the following when setting **experience factors**:

- 3.2.1 Sources of Actual Experience—When setting **experience factors** underlying the **disciplined current scale**, the actuary should use one or more of the following sources of **actual experience** (listed in the order of preference):
- a. company experience for the **experience factor class**;
 - b. company experience for other similar **experience factor classes**;
 - c. experience from other companies, such as affiliated companies;
 - d. industry experience studies; and
 - e. other relevant sources.

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To the extent that recent **actual experience** is not credible or representative of a policy form, the actuary should consider making adjustments to the **actual experience**. When determining the extent to which experience is credible, the actuary should refer to ASOP No. 25, *Credibility Procedures*.

If the actuary uses the Generally Recognized Expense Table (GRET) to set certain expense **experience factors** as discussed in section 3.2.5, the guidance in section 3.2.1 is not applicable for such expense **experience factors**.

3.2.2 Investment Return—When setting investment return **experience factors**, the actuary should

- a. use a reasonable method for allocating investment income to policies, such as the portfolio, segmentation, or investment generation method;
- b. reflect recent **actual experience**, net of default costs, of the assets supporting the policies;
- c. reflect the insurer's actual practice for **nonguaranteed elements** with respect to realized and unrealized capital gains and losses, investment hedges, policy loans, and other investment items; and
- d. use a time frame that sufficiently reflects business and economic cycles.

The actuary may develop investment return **experience factors** net of investment expenses or, alternatively, may include investment expenses in the expense **experience factors**.

When determining investment return **experience factors** for policies within the scope of an **applicable AG**, the actuary should also comply with any limitations imposed by an **applicable AG** for the assumed earned interest rate underlying the **disciplined current scale**.

3.2.3 Mortality, Morbidity, and Policyholder Behavior—When setting mortality, morbidity, and policyholder behavior **experience factors**, the actuary should adjust the recent **actual experience** if necessary to be consistent with the insurer's underwriting practices or **experience factor classes**. When doing so, the actuary should consider distinctions such as age, gender, duration, marketing method, plan, size of policy, policy provisions, and risk class.

3.2.4 Direct Sales Expenses—When setting direct sales expense **experience factors**, the actuary should take into account agent commissions, overrides, and other direct compensation determined by formula or incurred as a consequence of sales in a manner consistent with new business activities that generate the cost.

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3.2.5 Other Expenses—When setting **experience factors** for expenses other than direct sales expenses, the actuary should use one of the following methods:

- a. Fully Allocated—Unit expenses that reflect the total expenses incurred by the insurer for both in-force and newly issued policies.
- b. Marginally Allocated—Unit expenses that reflect the direct expenses (expenses that can be specifically related to a particular policy form) incurred by the insurer but do not reflect indirect expenses (such as corporate overhead and general advertising).
- c. GRET—Unit expenses that are approved for use by the NAIC or by the commissioner and are obtained from an industry expense study based on fully allocated expenses.

If no GRET is approved and available, the actuary should use fully allocated expenses. If a GRET is approved and available, the actuary may use the GRET, fully allocated expenses, or marginally allocated expenses. However, the actuary may only use marginally allocated expenses if they generate aggregate expenses that are greater than those generated by the GRET.

The actuary should use a single expense **experience factor** method for all policy forms tested. For example, the actuary should not use marginal expenses for one policy form and fully allocated expenses for another policy form.

Once the expense **experience factor** method has been selected, the actuary should use the same method for the entire certification year.

When calculating unit expenses, the actuary should use average policy size and sales volume assumptions that are appropriate for the policy form. When allocating direct expenses, the actuary should assign those expenses to the groups of policies generating the related costs. When allocating indirect expenses, the actuary should reflect the insurer's method for allocating expenses used in its **nonguaranteed element framework**. In addition, the actuary may spread nonrecurring costs over a reasonable number of years (for example, system development costs over the system's lifetime).

3.2.6 Taxes—When setting tax **experience factors**, the actuary should reflect all cash flows arising from applicable taxes. The actuary should take into account the impact of income taxes by duration. The actuary may treat non-income taxes that are classified as investment taxes as a deduction from the investment return or may reflect them separately. The actuary may include other categories of taxes, such as premium taxes or employment taxes, separately or include them in the category of other expenses, as outlined in section 3.2.5 above.

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The actuary should reflect the insurer's method for allocating taxes used in its **nonguaranteed element framework**.

- 3.2.7 Changes in Methodology—When an insurer changes its methodology in determining **nonguaranteed elements** (for example, changing from a portfolio rate methodology to a new money rate methodology for determining interest credits, adopting a new experience study methodology, introducing new methods of grouping policies into classes, or utilizing new methods of allocating expenses), the actuary should appropriately modify the **experience factors** underlying the **disciplined current scale** to reflect the new methodology.
- 3.2.8 Other Lines of Business—If other lines of business are considered investments of the illustrated block of business, the actuary should determine whether cash flows originating in such lines should be reflected in the **disciplined current scale**. When determining whether and how to reflect these cash flows, the actuary should take into account the time horizon of the investment/investor relationship and the insurer's actual practice for reflecting these cash flows in determining **nonguaranteed elements**.
- 3.2.9 Changes in Actual Experience—When the actuary determines that changes in recent **actual experience** are significant and ongoing, the actuary should update the **experience factors** underlying the **disciplined current scale**.

If the actuary determines that a significant deterioration in an **experience factor** has occurred and is likely to have continued between the date of the experience study and the effective date of the **illustrated scale**, the actuary should reflect such deterioration in the **experience factors**.

When an insurer introduces a change in underwriting practice (for example, adding a new underwriting classification) that is not expected to change the insured population, the actuary should set the **experience factors** in such a way that **actual experience** is reproduced in the aggregate.

- 3.3 Self-Support Testing—The actuary should perform self-support testing to demonstrate that illustrations are self-supporting as defined in the *Model*. When doing so, the actuary should use the **experience factors** underlying the **disciplined current scale**.

When performing a self-support test for a policy form, the actuary may test underwriting classifications (such as age, gender, and risk class) and policyholder choices (such as policy size, premium payment pattern, dividend option, coverage riders, and policy loans) in aggregate if, in the actuary's professional judgment, such combinations are appropriate. If testing is done in the aggregate, the actuary should select **experience factors** for the distribution between the underwriting classifications and the distribution between the policyholder choices that are based on recent **actual experience**, if available, recognizing possible shifts in distribution toward any portions of the business that do not meet the self-support test on a stand-alone basis.

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When an illustration falls within the scope of an **applicable AG**, the actuary should take into account any limitations on aggregation of indexed accounts imposed by the **applicable AG**.

- 3.4 Lapse-Support Testing—For illustrations of policies that can develop nonforfeiture values, the actuary should perform lapse-support testing to demonstrate that illustrations are not lapse-supported as defined in the *Model*. When doing so, the actuary should use the same **experience factors** and the same level of aggregation as described in section 3.3, changing only the persistency rate **experience factor** to be 100% after the first five policy years.

When performing a lapse-support test for a policy form, the actuary should assume that benefits that are conditional only upon policy continuation will be provided to all policies in force at the end of year five and surviving to the date of such benefits. For policies that provide benefits that are conditional upon certain premium payment patterns, the actuary should evaluate whether all policies in force at the end of year five will qualify for such benefits and appropriately reflect this evaluation in the lapse-support test.

Although illustrations of policy forms that can never develop nonforfeiture values are exempt from the lapse-support testing requirement, the actuary should confirm that the illustrations of such policy forms are self-supporting.

- 3.5 Illustrations of Policies In Force One Year or More—For illustrations of policies in force one year or more, the actuary should determine whether the **disciplined current scale** continues to be in compliance with the *Model* by (1) testing under sections 3.3 and 3.4, as applicable, or (2) determining that any of the following conditions is met:

- a. the **currently payable scale** has not been changed since the last certification and the **illustration actuary** determines that experience since the last certification does not warrant changes in the **disciplined current scale** that would make it significantly less favorable to the policyholder;
- b. the **currently payable scale** has been changed since the development of the **disciplined current scale** most recently certified only to the extent that changes are reasonably consistent with changes in experience underlying the **disciplined current scale**; or
- c. the **currently payable scale** has been made less favorable to the policyholder since the last certification and the change is more than the change in experience would dictate.

If the actuary determines that the **disciplined current scale** is not in compliance with the *Model*, the actuary should (1) review the **experience factors** underlying the **disciplined current scale** and revise as necessary and (2) determine a new **disciplined current scale**.

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For policies in force one year or more that are receiving distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block), the actuary may include such distributions in the **disciplined current scale**, but only to the extent that (1) such distributions are currently being paid to the policyholders by the insurer and (2) the insurer has indicated its intent and ability to continue to do so for the foreseeable future. The actuary may use such accumulated surplus or prior gains in conducting the tests for self-support and lapse-support.

3.6 Changes in Practice—When an insurer has changed its practices in a way that may have significant positive or negative effects on future experience, but not enough time has elapsed for the effect of the change to be reflected in the insurer’s **actual experience**, the actuary should consider reflecting the effect of the change in the **experience factors** underlying the **disciplined current scale**. Examples of such changes in practices include the following:

- a. a change in underwriting standards, such as introducing or eliminating risk classifications, guaranteed issue, simplified underwriting, or accelerated underwriting programs;
- b. a change in commission levels;
- c. a reduction in staff;
- d. a change in investment policies, such as changes in hedging activities and changes in asset class allocations; and
- e. new or revised reinsurance agreements.

The actuary should reflect only actions that have already been taken or events that have already occurred.

3.7 Reliance on Others for Data or Other Information, Projections, Models, and Supporting Analysis—The actuary may rely on data or other information, projections, models, and supporting analysis supplied by others. When practicable, the actuary should review the data or other information, projections, models, and supporting analysis for reasonableness and consistency. For further guidance, the actuary should refer to ASOP No. 23, *Data Quality*, ASOP No. 41, *Actuarial Communications*, and ASOP No. 56, *Modeling*.

3.8 Reliance on Assumptions or Methods Selected by Another Party—When relying on **experience factors**, assumptions, or methods selected by another party, the actuary should review the **experience factors**, assumptions, or methods for reasonableness and consistency. The actuary should refer to ASOP No. 41 for guidance.

3.9 Reliance on Another Actuary—The actuary may rely on another actuary who has performed actuarial services. However, the relying actuary should be reasonably satisfied

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that the other actuary is qualified to perform the actuarial service and that the actuarial service was performed in accordance with applicable ASOPs.

- 3.10 Certification—The *Model* requires the **illustration actuary** to certify, for both new business illustrations and in-force illustrations, that (1) the **disciplined current scale** used in illustrations is in conformity with this standard and (2) the **illustrated scales** used in insurer-authorized illustrations meet the requirements of the *Model*.

As required by the *Model*, the **illustration actuary** must provide a certification for a new policy form before it is illustrated and must provide an annual certification for all policy forms for which illustrations are used. Additionally, the **illustration actuary** must file certifications with the board of directors of the insurer and with the commissioner.

- 3.10.1 Notice of Inability to Certify—If an **illustration actuary** is unable to certify the **illustrated scale** for any policy form the insurer intends to use, the actuary must notify the board of directors of the insurer and the commissioner promptly of his or her inability to certify, as required by the *Model*.

- 3.10.2 Notice of Error in Certification—If an error in a previous certification is discovered, the **illustration actuary** (or successor **illustration actuary**) must promptly notify the board of directors of the insurer and the commissioner, as required by the *Model*.

The **illustration actuary** should deem the certification to be in error if the certification would not have been issued or would have been materially altered had the error not been made. The **illustration actuary** should not deem the certification to be in error solely because of data that became available subsequent to the certification date, or solely because of information concerning events that occurred subsequent to the certification date.

- 3.11 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

When preparing the documentation related to the certification described in section 3.10, the actuary should include the following:

- a. description of, and rationale for, the investment return, mortality, morbidity, policyholder behavior, expense, tax, and other **experience factors** underlying the **disciplined current scale**;

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- b. description of, and rationale for, any other calculation methods and assumptions used to carry out the tests and demonstrations required by the *Model*; and
- c. demonstration that the self-support and lapse-support tests have been met.

Section 4. Communications and Disclosures

4.1 Required Disclosures in Actuarial Reports and Certifications—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 23, 25, 41, and 56. In addition, the actuary should disclose the following in such actuarial reports:

- a. whether the **disciplined current scale** is in conformity with this standard and whether the **illustrated scales** meet the requirements of the *Model* (see section 3.10);
- b. any assumptions or **experience factors** used in the analysis, in summary form;
- c. any reliance on others for data or other information, projections, models, and supporting analysis (see section 3.7);
- d. any reliance on **experience factors**, assumptions or methods selected by another party (see section 3.8); and
- e. any reliance on another actuary (see section 3.9).

When making an annual certification, the **illustration actuary** must include the disclosures required by applicable law based on the *Model* for annual certifications.

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

- a. if any material assumption or method was prescribed by applicable law;
- b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and
- c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

4.3 Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Sales illustrations have been of concern to regulators for over a century, going back at least to the Armstrong Commission (1905–1906). Developments prior to 1995 involving insurance products, illustration technology, and the volatility of financial markets led to heightened concern and to the adoption of the NAIC *Life Insurance Illustrations Model Regulation (Model)* and this ASOP.

Actuaries have been involved in the process of establishing scales of dividends and other nonguaranteed elements to be illustrated by insurance companies for decades. Until the 1980s, nonguaranteed elements were essentially synonymous with participating dividends, and the sources of scales of illustrated dividends were tables prepared by the respective insurance companies. Since that time, there has been a proliferation of policies with nonguaranteed elements other than dividends. Improving technology has also made possible the development of software that enables insurance agents to produce sales illustrations based on a variety of assumptions, potentially with little or no direct involvement on the part of the insurer. The *Model* assigns major responsibilities regarding compliance to an actuary who is appointed by the insurer.

Illustrations are intended to have two primary uses:

1. to show the buyer the mechanics of the policy, i.e., how a particular financial design or concept works and how policy values or premium payments may change over time; and
2. to show how the policy may fit into the policyholder's financial plan.

Another common use of illustrations is to compare the cost or performance of different policies, based on the misperception that the sales illustration projects a likely or best estimate of future performance. A sales illustration simply shows the performance of one particular scale of nonguaranteed elements into the future. Actual nonguaranteed elements will almost certainly vary from those illustrated. Different policies will experience different variances from illustrated values.

Current Practices

Since the promulgation of the original standard in 1995, product innovation has continued as pricing structures have been refined, secondary guarantees have expanded, additional underwriting classifications have been added, and an increasing variety of policies with index-

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based interest credits have been developed. Illustration actuaries used their own judgment to interpret the *Model* for indexed policies, within the constraints of ASOP No. 24. As indexed policies became more common, regulators were concerned that the amount of index-based interest credit being illustrated was unrealistic and that there were more variations between illustrations from different companies than policy features alone would indicate, which could lead to confusion among consumers. In 2015, this lack of uniform practice in *Model* implementation led regulators to promulgate Actuarial Guideline XLIX (AG 49) to provide guidance on the interpretation of the *Model* for indexed life insurance policies. AG 49 did not fully capture the illustration implications of innovations in product design that occurred after its introduction. Consumer advocates argued that newer product designs were circumventing AG 49 limits and again illustrations were showing unrealistic returns. In December 2020, Actuarial Guideline XLIX-A (AG 49-A) was promulgated to address newer product designs and enhance guidance for indexed policies. This standard was revised accordingly. The ASB notes that while the standard was being revised, the NAIC was discussing possible further guidance for illustrations of indexed policies.

Some illustrations are not subject to an applicable law based upon the *Model*, or to AG 49 or AG 49-A. Examples include illustrations for policies in jurisdictions that have not adopted such a law and illustrations for policies that are not within the scope of the *Model* or of the AGs, such as variable life insurance policies offering indexed accounts. Some actuaries certify or represent to boards of directors, customers, agents, or regulators that such illustrations are in accordance with the *Model* or that they conform with one or more of the AGs.

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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	
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	
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.
Section 3.4, Developing the Disciplined Current Scale (now deleted)	
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.

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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 ASOP</i> .
Response	The reviewers note that the proposed <i>Setting Assumptions ASOP</i> 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.
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.”

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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.
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.

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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.
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.

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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.
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)	
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.

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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.
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.

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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.