

Title of Exposure Draft: ASOP40 exposure Draft

Comment Deadline: September 15, 2023

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to 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 to 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.

I. Identification:

Name of Commentator / Company
Aaron Ziegler , FSA, MAAA, CERA - Chief Actuary and Appointed Actuary / Illinois Mutual Please note: My response below represents solely my own opinion. No part of my response should be deemed to represent the opinions of Illinois Mutual nor the opinions of the other actuaries at Illinois Mutual.

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
Section 3.3	<p>"In general, the actuary should not change the X factor class to which a policy is defined."</p> <p>I would recommend the following:</p> <p>"If the actuary deems it necessary to change a policy's X factor class, this should be justified and documented. See section 4.1.e."</p>	<p>While I suspect the authors of the exposure draft will lean against the words "in general," I disagree that "in general" an actuary should not change the X factor class. Here are a few common examples for which changing the X factor class might be reasonable.</p> <ol style="list-style-type: none">Variance of underlying plans - Based upon the current ASOP section 3.4 – "When X factor classes are similar across various plans of insurance, these X factor classes may be combined into a common single X factor class." Taking this a step further, over time, the actuary may find that the behavior of a particular plan, face amount band within a plan, or even a risk class within

		<p>a plan may differ materially from the existing group combined X factor class for some unanticipated reason. In this case, it could be prudent for the Appointed actuary to remove this plan from the X factor class and establish a new X factor class for this particular plan.</p> <p>2. Immateriality – At some point, immateriality comes into play. It is completely reasonable that for the sake of simplicity an appointed actuary may test “setting the X factors = 1” on an old plan. This plan may be grouped with other similar plans but may no longer be a material part of the X factor group. In this case, the appointed actuary may, at his own discretion, set the X factors to 1 for that plan out of simplicity of the annual certification.</p> <p>I believe these two examples are reasonable common practice but would constitute a “change in X factor classes” as described in the exposure draft, and hence I disagree that “in general” this is unacceptable.</p> <p>Further supporting these points, according to the exposure ASOP 40 states the following:</p> <ol style="list-style-type: none"> 1. Section 3.5 “X factors may also be adjusted when the actuary determines that it is appropriate to do so.” 2. Section 4.1.e – Document “whether policies have been reclassified into different X factor classes from prior reports and the justification for doing so.” If it is not generally acceptable, then being permitted here to change x factor classes so long as you document it seems like a contradiction.
<p>Section 3.4.3</p>	<p>“The actuary may adjust for ... a temporary event, such as a war or a pandemic, which affects the actual mortality but not the expected future mortality.”</p>	<p>This is well said! I concur with this wholeheartedly and appreciate the written ASOP guidance for this practice. While many people have died from pandemic related issues in recent years (whether it be COVID, depression, drug/opoid abuse ...etc.), I do not believe that heightened mortality will persist in the long run.</p>

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<p>Section 3.5</p>	<p>“The actuary may select X factors greater than 100%, such as when anticipated mortality exceeds the valuation mortality table”</p> <p>Consider adding a note:</p> <p>“If a particular plan or group of plans is strictly using X factors greater than or equal to 100%, these may but are not required to be opined upon.”</p>	<p>This is true, however it begs to be mentioned, according to the Model, “If X is less than 100 percent at any duration for any policy, the following requirements shall be met: ... The appointed actuary shall annually opine” ..etc. So, while the appointed actuary is able to set X factors above 100, if the appointed actuary wishes to do this for an entire X factor class (say setting the X factor = 150% for an entire plan or policy form) then that policy form is no longer required to be part of the annual opinion because the Model specifically only requires an opinion on those plans where for any policy the X factor is less than 100. The appointed actuary would only be required to opine if (say on a particular plan) there were x factors both above and below 100%.</p>
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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
	<p>Overall, I believe you’ve done a standup job. Thank you for your efforts on this.</p>

V. Signature:

Commentator Signature	Date
<p>Aaron Ziegler, FSA, MAAA, CERA</p>	<p>7/27/2023</p>