***Title of Exposure Draft**: Proposed Revision of ASOP NO. 24 - [Compliance with the NAIC Life Insurance Illustrations Model Regulation](#) (Second Exposure Draft)*

Comment Deadline: [September 15, 2023]

Instructions: Please review the exposure draft, and give the ASB the benefit or 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
Michael Beeson, FAS / Pacific Life Sawyer Brooks, FSA / Pacific Life Ernest Armijos FSA / Pacific Life Please note: The responses below represent solely our own opinions. No part of our responses should be deemed to represent the opinions of Pacific Life nor the opinions of the other actuaries at Pacific Life.

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)
2.9	Strike "and maximum rates of return". Optionally, replace with "and annual cap".	The maximum rate of return for an indexed universal life product is not a nonguaranteed element. It is a regulatory constraint as specified in Actuarial Guideline 49. If the Actuarial Standards Board wishes to replace the stricken text with an alternate example, we suggest "annual cap".
3.2.1	When setting experience factors underlying the disciplined current scale, the actuary should use one or more of the following	Clearer guidance should be provided to actuaries regarding how to adjust for significant product design changes where experience may

	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. The actuary should ensure that experience factors are representative of the policy form and that they align to changes in the form that could reasonably be expected to drive policyholder behavior that could lead to different emerging underlying actual experience. 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.	no longer be applicable. For example, policyholder behavior may be expected to materially change if a feature is added or removed from a product. It would be inconsistent with the new policy to continue to use the existing experience factors.
3.2.5.a	Fully Allocated - Unit expenses that reflect the total recent expenses incurred by the insurer for both in-force and newly issued policies.	While the header section of 3.2 states that all experience factors should use recent actual experience, the other subsections all reiterate *recent* and *actual*. In the expense section, the *actual* is covered by “incurred by the insurer”, but the *recent* is not. Clarification that expenses should be based on recent actual experience would be helpful.
3.2.5.b	Marginally Allocated—Unit expenses that reflect the recent direct expenses (expenses that can be specifically related to a particular policy form) incurred by the insurer but do not	Same as prior comment

	reflect indirect expenses (such as corporate overhead and general advertising).	
4.1.c	f. Any change in actuarial assumptions that materially improves performance in the Illustration Test. Moreover, the Actuary should document any substantial reversal of a previous change in assumptions if the reversal improves performance in the Illustration Test.	Actuaries face many decisions on the methodology and assumptions used in supporting the Illustration Test. Adding this disclosure requirement would provide transparency to regulators, reviewers, and other stakeholders and would promote stability in methodology.
New sub-section 3.2.10 (ideally this would be the new 3.2.3 to follow investment return given the close link between the two. The other sub-sections would then be renumbered)	Hedge Costs When setting hedge cost experience factors for index accounts, including any hypothetical benchmark index account, the actuary should reflect recent actual experience consistent with the insurer's hedging program. Additionally, the actuary should use a time horizon consistent with that used for setting nonguaranteed elements such as index parameters.	The critical assumptions – mortality, investment return, expenses – all have subsections with 3.2 to provide further guidance. The new AG 49-A regulations from 2020 and 2023 put a new emphasis on Hedge Costs that never existed prior. Assumptions surrounding the Hedge Costs have now become one of the most critical assumptions for determining the Benchmark Index Account, and as such, clear and consistent standards of practice are needed.
New sub-section 3.2.10.a (can be part of the new section 3.2.10 but is severable from the above)	a) Given that market interest rates drive option prices, the Actuary should consider whether use of a multiyear average hedge cost implies a movement in interest rates and how such movement might affect the assumed investment return.	Actuarial Standard of Practice 56 calls for use of internally Consistent Assumptions within a model. The rationale for the suggested paragraph about interest rates, option prices, and net earned rate is to highlight a key relationship relevant to Actuarial Standard of Practice 24.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

V. Signature:

Commentator Signature	Date
Michael Beeson	9/15/2023

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