

ASOP No. 15—March 2006

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this actuarial standard of practice (ASOP), then titled *Dividends for Individual Participating Life Insurance, Annuities, Disability Insurance, and Long-Term Care Insurance*, was issued in March 2005, with a comment deadline of September 30, 2005. Fourteen comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Task Force to Revise ASOP No. 15 carefully considered all comments received, and the Life Committee and the ASB reviewed (and modified, where appropriate) the proposed changes to the ASOP. Summarized below are the significant issues and questions contained in the comment letters and responses to each. The term “reviewers” includes the task force, the Life Committee, and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the exposure draft.

GENERAL COMMENTS	
Comment	Several commentators suggested various editorial changes in addition to those addressed specifically below.
Response	The reviewers implemented such changes if they enhanced clarity and did not alter the intent of the section.
Comment	One commentator noted that if interest earned is less than required, there may be yearly dividend decreases and policyholder complaints. The commentator suggested that it may be better to level scales, build surplus, and develop dividends with an increasing pattern.
Response	The reviewers noted that the development of such scales is a determination of divisible surplus, which is a decision by the insurer and not within the scope of the standard.
Comment	Two commentators suggested that the cost of reinsurance might be taken into account in the distribution of costs among policyholders.
Response	The reviewers agreed and created new section 3.9, Reinsurance.
Comment	Some disability income policies have been issued as participating but where no dividend is anticipated to be paid. One commentator suggested the standard address (a) whether it is appropriate to offer such policies under the contribution principle, and (b) how the actuary is to determine dividends.
Response	The reviewers believed determining the appropriateness of policy offerings was beyond the scope of this standard. The reviewers disagreed with the commentator’s request that the standard discuss how to determine dividends.
Comment	One commentator noted that some blocks of individual participating insurance have been sold to a reinsurer and asked about the scope of the standard in such a situation.
Response	The reviewers noted that the standard applies to actuaries providing professional services on dividends whether working for a direct insurer or a reinsurer.

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Comment	One commentator noted that, in the case of a closed block of participating policies, one or more dividend factors, such as the factor related to expenses, may be specifically addressed in a plan of reorganization. The commentator suggested the standard should provide guidance in this situation.
Response	The reviewers noted that the scope of the standard recognized that the actuary should satisfy the requirements of “other legally binding authority” in performing professional services.
Comment	Several commentators believed that the distinction in guidance for paid dividends and illustrated dividends was unclear.
Response	The reviewers assessed the scopes of ASOP Nos. 15 and 24 and believed they were clear.
Comment	Two commentators made comments that can be summarized in three general areas:
Response	<p>1. The standard should provide more guidance to actuaries in the area of the actuary’s responsibility to act in the beneficial interest of the policyholder in determining dividends and the latitude the actuary may have in following the contribution principle.</p> <p>2. The standard did not provide sufficient detail in the level of guidance for performing professional services, both in the dividend framework and determining dividend factors.</p> <p>3. The standard should address the role of the actuary, the insurer, and the policyholder in determining divisible surplus.</p> <p>1. The reviewers assessed the standard with respect to the actuary’s responsibility to act in the beneficial interest of the policyholder and the latitude the actuary may exercise in following the contribution principle and believed the standard provided appropriate guidance and reflected accepted practice.</p> <p>2. The reviewers assessed the level of detail and made appropriate revisions.</p> <p>3. The reviewers noted that determining divisible surplus was outside the scope of the standard.</p>
Comment	Several commentators stated that the determination of dividends for participating long-term care policies does not yet have generally accepted practices and should be outside the scope of this standard.
Response	The reviewers agreed and removed references to long-term care policies.
SECTION 1. PURPOSE, SCOPE, CROSS REFENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator suggested that the standard should clearly state that it covers policyholder dividends whether the policy is issued by a stock, fraternal, or mutual insurer.
Response	The reviewers agreed and revised the language in this section to include these entities.
Section 1.2, Scope	
Comment	One commentator asserted that the actual payment of future dividend scales should be tightly and permanently linked to those illustrated at issue.
Response	The reviewers believed that the standard adequately addressed the dividend allocation process and that the insurer may change the dividend allocation process, working through the dividend framework, dividend factors, and divisible surplus, resulting in dividend scales that may differ markedly from those originally illustrated.
SECTION 2. DEFINITIONS	
Comment	A few commentators asked for more clarity in the definitions of 2.3, Dividend Determination; 2.4, Dividend Factor; 2.6, Dividend Framework; and 2.8, Policy Factors (now 2.9).
Response	The reviewers agreed and amended the definitions.

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Section 2.2, Contribution Principle	
Comment	Some commentators suggested that the definition of contribution principle should clarify the point that policies are grouped into dividend factor classes for the purpose of determining dividends and that the distribution of surplus among policies is based on such factor classes.
Response	The reviewers agreed that such clarity is important and changed the definition of the contribution principle.
Comment	One commentator asked for clarification of the change in the definition of “contribution principle” because the commentator believed this suggested no difference from current practice.
Response	The reviewers added the word “reflects” to acknowledge the impossibility of distributing divisible surplus to policies literally in exact proportion to the contribution to divisible surplus.
Section 2.4, Dividend Factor	
Comment	One commentator suggested that the definition be clarified to reflect experience.
Response	The reviewers agreed and modified the definition.
Section 2.7, Policies	
Comment	One commentator suggested that the definition of “policy” with respect to group certificates should be clarified to cover group certificates that include dividend provisions similar to individual participating policies.
Response	The reviewers agreed and changed the definition to better reflect that concept.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Contribution Principle	
Comment	One commentator suggested that the reference to the contribution principle being applied over an extended period of time be transferred from the appendix to section 3.1, where it was in the previous standard.
Response	The reviewers agreed and restored this reference to section 3.1.
Comment	One commentator suggested that the contribution principle should include smoothing out and leveling variations in factors, such as mortality, to avoid anomalies in the progression of dividends by duration.
Response	The reviewers agreed but believed that the standard adequately covered this.
Comment	One commentator noted that some dividend frameworks may provide for a step-up in premium that may be offset by a dividend. The commentator asked whether the contribution principle is being followed in that situation.
Response	The reviewers noted that the standard provides for approximations, simplified processes, or other adjustments considering relevant conditions and circumstances. Such latitude is intended to allow for a variety of reasonable practices in following the contribution principle.
Section 3.3, Dividend Factors	
Comment	One commentator suggested that the list of reasons for making adjustments to dividends or dividend factors, which was in appendix 1 of the exposure draft, be moved to the end of this section or be cross referenced.
Response	The reviewers believed the list of reasons represented current practice and was more appropriate in the appendix as education. The reviewers changed the wording of the appendix to refer to section 3.2.
Section 3.3.2, Differences between Dividend Factor Classes (now Dividend Factor Classes)	
Comment	One commentator suggested that the characteristics to be considered in defining dividend factor classes be expanded, by making clear that those in the standard are examples, not an exclusive list.
Response	The reviewers agreed but believed that the existing language allowed consideration of other characteristics.

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Section 3.3.3, Uniform Criteria	
Comment	One commentator suggested a slight editing of the statement in the draft concerning uniform criteria.
Response	The reviewers agreed and revised the language.
Section 3.3.4, Dividend Factors for New Policies	
Comment	One commentator suggested that, when setting a dividend factor that differentiates between old and new policies, it may not be appropriate to set that dividend factor on a conservative basis given a fixed distributable surplus.
Response	The reviewers agreed and revised section 3.3.4.
Section 3.5, Mortality, Morbidity, and Policy Termination	
Comment	One commentator suggested it be made clearer that the list of examples in this section is not exclusive.
Response	The reviewers agreed and added the appropriate wording.
Section 3.8, Tax (now section 3.10)	
Comment	One commentator suggested that generally accepted practice allows dividend formulas determined on a pre-tax basis with no deduction for taxes and that the standard should make that clear.
Response	The reviewers agreed but believed the standard adequately covered this.
Section 3.9, Stockholder Retention on Policies Originally Issued by a Stock Company (now section 3.11)	
Comment	One commentator suggested that determination of shareholder retention as discussed in this section is a part of the determination of divisible surplus and therefore not covered by this standard.
Response	The reviewers believed that shareholder retention charges, as they relate to the dividend framework, were appropriately addressed in the revised standard.
Section 3.11, Illustrated Dividends Not Subject to ASOP No. 24 (now section 3.13)	
Comment	One commentator suggested that the standard clarify that illustrated dividends not covered by ASOP No. 24 should reasonably relate to recent paid dividends, not all past dividends paid.
Response	The reviewers agreed and amended this section to reflect that.
APPENDIX (now Appendix 1)	
Comment	One commentator took exception to including experience premium method and percentage of premium method as involving simplified formulas.
Response	The reviewers made a clarifying revision to the sentence to address the commentator's concern.

