

May 31, 2017

Principle-Based Reserves for Life Products  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036-5805

Dear Sir or Madam:

The following comments are being submitted on behalf of Lincoln Financial Group in response to the Actuarial Standards Board Request for Comments on the proposed ASOP titled “Principle Based Reserves for Life Products”. Following are our comments:

### Section 3: Analysis of Issues and Recommended Practices

- Section 3.2 – Consider removing this section since the information provided is very similar to Section 2.8
- Section 3.4.1.a.2 – Consider removing the highlighted wording below since it contains redundant information that is already included in the definition of Asset Segmentation Plan (Section 2.2)

“uses **model segments** consistent with the insurer’s **asset segmentation plan**, **investment strategies, or approach used to allocate investment income for statutory purposes**”

- Section 3.4.1.b – This section may have an unintended consequence of introducing a new restriction to have separate segments by asset portfolio which is not currently in VM20. Consider modifying the language in section 3.4.1.b paragraph 2 as follows:

“The actuary may assign policies with offsetting risks **from separate asset portfolios** to the same **model** segment if the assignment is consistent with the aggregation rules of the *Valuation Manual* and otherwise appropriate (for example, when there is a common investment strategy **or when the company is managing the risks of two or more different product types as part of an integrated risk management process**).

- Section 3.4.2.c.1 (vi) – Consider removing the highlighted wording below. The wording is asking the actuary to prove that every policyholder behavior assumption does not need to be a scenario dependent assumption. The first sentence in this section which states that the actuary “should consider” using scenario dependent formulation is sufficient.

“vi. The actuary should consider using a scenario-dependent formulation for anticipated policyholder behavior. ~~If the actuary chooses to use a model for anticipated policyholder behavior that is not scenario dependent, the actuary should demonstrate that the use of scenario dependent assumptions is unlikely to result in a materially higher minimum reserve. Such demonstration could, for example, consist of studies of credible and relevant experience showing no material change in the risk factor over a period of varying economic conditions or a demonstration showing that the minimum reserve does not vary materially over a set of representative scenarios.~~ For risk factors that are scenario-dependent, the actuary should incorporate a reasonable range of future expected behavior consistent with the economic scenarios and other variables in the model. In the absence of evidence to the contrary, modeling extreme behavior may not be necessary. However, the actuary should test the sensitivity of results to understand the materiality of using alternate assumptions.”

- Section 3.4.2.f – The guidance in this section on “Overall Margins” should apply to mortality margins as well.

Consider changing the wording in section 3.4.2.f.1 as follows:

“The guidance in section (2) below titled “Establishing Margins” ~~the remainder of this section on determining assumption margins~~ does not apply to the mortality assumptions.”

Consider changing section 3.4.2.f.2 as follows: move the last paragraph that starts “After establishing margins for individual assumptions...” to section 3.4.2.f.4 titled “Overall Margin”. The information in this paragraph is related to overall margins.

- Section 3.7 – Consider taking out the last sentence in the last paragraph:

“The actuary should consider including this verification in the **PBR actuarial report.**”

The PBR actuarial report is very comprehensive and includes information on models and assumptions. Internal standards and internal controls are maintained internally and we don't think it's appropriate to include this internal information in the PBR Actuarial report.

### **General observations:**

In general, we noticed some overlap between this ASOP and the practice note titled "Life Principle-Based Reserves Under VM-20" dated May 2017. For example, a lot of the information included in the "Expenses" section (3.4.2.d) is also included in the practice note. We recommend that this ASOP be reviewed in light of the most recent practice note to determine whether the duplication of information is necessary, or where the information should ultimately reside. In the example of "Expenses", a lot of the information included may make more sense in a practice note than in an ASOP, but not in both.

### **Responses to requested questions:**

1. Is the guidance concerning VM-G clear and appropriate (section 3.1)?

We believe that the guidance concerning VM-G is clear and appropriate.

2. Is the guidance concerning the PBR Actuarial Report clear and appropriate (section 4.2)?

The guidance concerning the PBR Actuarial Report is clear. As mentioned before, consider removing the last statement in section 3.7 (comments provided above).

3. Are there any significant inconsistencies between the requirements of this draft ASOP and the requirements of the *Valuation Manual*?

We believe there is an inconsistency in the "Model Segment" section (3.4.1.b) and the valuation manual. See comment provided above.

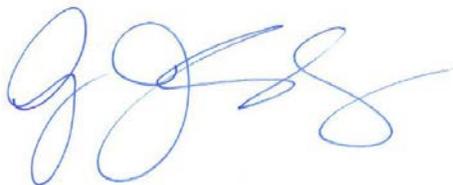
4. Does the proposed effective date of December 31, 2017 provide sufficient time to comply with this standard if the ASB adopts the standard in September 2017?

An effective date of December 31, 2017 after an adoption of the standard in September 2017 gives companies very limited time to ensure compliance with all of the guidance in the ASOP. Keep in mind that companies are building their first PBR Actuarial Report, determining the necessary reports and certifications for senior management and the board, and finalizing their first annual reporting

process in 2017. Our recommendation would be an effective date of December 31, **2018**.

Thank you for the effort put into this so far and for the opportunity to comment. We look forward to seeing the final draft of this important ASOP that will continue to move our profession forward.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Amy Eby', with a stylized, cursive script.

Amy Eby  
Vice President and Appointed Actuary