



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

May 29, 2019

Actuarial Standards Board
1850 M Street, Suite 300
Washington, DC 20036-5805

Via email: comments@actuary.org

Re: December 2018 Exposure Draft of Actuarial Standard of Practice (ASOP) No. 22,
Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities

To Whom It May Concern:

The Life Practice Council of the American Academy of Actuaries¹ has formed the Task Force to Review ASOP 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities*. The task force is pleased to provide the attached comments.

We hope these comments are helpful. Please contact Ian Trepanier, the Academy's life policy analyst (trepanier@actuary.org), if you have any questions.

Sincerely,

Thomas Senior Berry Jr., MAAA, FSA, Chairperson
ASOP 22 Task Force

Task Force to Review ASOP 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities*

Thomas Senior Berry Jr., MAAA, FSA, Chairperson
Daniel L. Ahlgrim, MAAA, FSA
Theresa M. Dziejczak, MAAA, FSA
Bruce A. Friedland, MAAA, FSA
Randall A. Stevenson, MAAA, ASA

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Section 1.1 PURPOSE

Comment: In this section, the term “*applicable law*” appears for the first time, and it is explained as “(statutes, regulations, and other legally binding authority)”. In subsequent sections of the ASOP, the term appears multiple times. When it is used, sometimes the parenthetical is also repeated, and other times the parenthetical is not repeated. In the previous version of the ASOP, this was a defined term.

Suggestion: Consider restoring the term “*applicable law*” to the Definitions section, with all references changed to simply read “applicable law.”

Section 1.2 SCOPE

Comment: Regarding applicability of ASOP No. 28, it may be clearer to say that it may “*also*” apply (if that is the intent).

Section 2.3 CASH FLOW

Comment: It is unclear what is encompassed by “*other cash flows required by applicable law.*”

Suggestion: Consider including an example of such cash flows.

Section 2.8 INVESTMENT YIELD RISK

Comment: Investment Yield Risk is defined in the ASOP, apparently replacing the previously defined terms “*Asset Risk*” and “*Investment Rate-of-Return Risk*”. Yield is a specific term in finance and this may be interpreted by some to exclude other risks such as default risk, call risk, rating risk, and the risk of changing option-adjusted spreads.

Also, the defined term is used only once in the ASOP, in Section 3.1.

Suggestion: If the term is meant to be broad, refer to “Investment Risk” instead of “*Investment Yield Risk*” and provide more guidance as to its nature, whether as a defined term or at the point where it appears in the ASOP. A potential definition of the broad term appears below. If the term is meant to be narrow, consider providing a definition of “investment yield.”

2.8 Investment Risk – The risk that investment results will differ from expectations or assumptions, causing a change in the amount or timing of cash flows. This risk includes but is not limited to: the risk of changes in interest rates, risk of defaults, risk of embedded options being exercised, the risk of change in the quality designation of assets, changes in the investment expenses, and the risk of changes in option adjusted spreads.

2.13 SUBSEQUENT EVENTS

Comment: The definition of “*subsequent events*” does not have an end date, such as the date the opinion is signed.

Suggestion: Consider clarifying the definition of “*subsequent events*” to include an end date.

2.13 Subsequent Events - Material events that occur after the valuation date and prior to the date the Statement of Actuarial Opinion is signed.

If applicable, consider including something like the following:

Material events also include any events expected after the date the Opinion is signed that would affect the asset adequacy conclusions drawn.

3.1.1 ANALYSIS METHODS

Comment: The definition of “*scenario*” refers to “*economic and other assumptions used in cash flow testing*”. In Section 3.1.1 reference is made to “*different economic or interest rate scenarios*” and “*economic and interest rate assumptions.*” Are interest rates not considered “*economic*” with respect to assumptions or scenarios?

Suggestion: The defined term “*scenario*” does not need qualification in Section 3.1.1 or 3.2.4. It could stand alone per the definition. Also, it may be sufficient to refer to “*economic assumptions*” rather than “*economic and interest rate assumptions.*” If the distinction is necessary, should it be “*or*” rather than “*and*”?

Comment: The examples of other acceptable analysis methods in Section 3.1.1 could be construed by some readers as a complete list of acceptable methods. For absence of doubt, it may be helpful to clarify that there may be other acceptable methods, assuming that is the intention.

Suggestion: Consider amending the sentence preceding the examples of analysis methods in Section 3.1.1 to something like the following: “*Examples of other acceptable analysis methods include but are not limited to the following.*”

3.1.2 DISCOUNT RATES

Comment: It’s not clear why only “*expected yield*” should be reflected in setting discount rates. Discount rate considerations might appropriately include return risks not adequately reflected in expected values.

Should considerations be limited to the period being modeled?

Is there a reason that the language “*should reflect*” is used instead of “*should consider*”?

Suggestion: Consider revising as indicated below.

3.1.2 Discount Rates – The actuary should consider the returns and risks for the current block of assets, as well as the returns and risks on any assets assumed to be purchased or divested during the projection period, in setting the discount rates used in the analysis.

3.1.3 TRENDS IN ASSUMPTIONS

Comment: Part “c.” and its example are not clear.

Suggestion: Consider revising the example to something like the following:

“...for example, if policyholder elections affecting the results may be influenced by economic conditions, then trends related to economic conditions should be considered when setting policyholder election assumptions.”

3.1.4 ASSUMPTION MARGINS

Comment: Are the assumptions referred to above “best-estimate” assumptions? If so, consider clarifying that they are (or are not).

Comment: Is the last paragraph a suggestion for use when an assumption is not able to be modeled dynamically? The example at the end of the section does not seem clear or necessary.

3.1.5 AGGREGATION DURING TESTING

Comment: It may be worth noting also that assets or cash flows used for analysis of one block of business may not be used again for analysis of another block of business.

3.1.6 USE OF CASH FLOWS FROM OTHER FINANCIAL CALCULATIONS

Suggestion: Add “if appropriate for such purpose” to the end of the first sentence.

Comment: 3.1.6.e – It is not clear what “rules” are being referred to.

Comment: The list of consideration examples does not include provisions for reinsurance or distributions of surplus through participating dividends or stockholder dividends.

Suggestion: Consider revising portions of 3.1.6 as follows:

3.1.6 Use of Cash Flows from Other Financial Calculations – ...

e. the aggregation of results;

f. distribution of surplus;

g. reinsurance; and

h. taxes.

3.1.9 SENSITIVITY TESTING

Suggestion: Consider changing to “...*performing sensitivity testing of how variations in an assumption or combinations of assumptions affect the asset adequacy analysis results.*”

3.2.2 ADEQUACY OF RESERVES AND OTHER LIABILITIES

Comment: It’s not clear how the second sentence addresses adequacy of reserves or provides useful guidance. Regardless, is the word “*usually*” necessary or correct in this context?

Suggestion: Consider removing “usually” from the second sentence or deleting the sentence entirely.

3.2.7 OPINIONS OF OTHER ACTUARIES

Comment: The directive in the second sentence appears to preclude the situation raised in the first sentence, given that only one actuary may form the opinion. It may be clearer to say that more than one actuary may contribute to the analysis, but not to the opinion.

Suggestion: Consider revising section 3.2.7 as follows:

“3.2.7 Opinions of Other Actuaries – When more than one actuary contributes to the asset adequacy analysis, the actuary forming the opinion should review the contributions of the other actuaries and form the opinion without claiming reliance on any opinion(s) of the other actuary(s).”

4.1 REQUIRED DISCLOSURES IN AN ACTUARIAL REPORT

Comment 1: In the second sentence, what is the rationale for including the phrase “*whether or not required by applicable law*”?

Comment 2: Disclosures should be limited to the subsequent events of which the actuary is aware.

Suggestion: 1. any **subsequent events** that have occurred, of which the actuary is aware (see section 3.1.12);