AMERICAN ACADEMY *of* ACTUARIES

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***Title of Exposure Draft: ASOP No. 22***
***Comment Deadline: November 30, 2020***

To Whom It May Concern:

On behalf of the American Academy of Actuaries'[1] Health Practice Council Long-Term Care (LTC) Reform Subcommittee Task Force to Review ASOP No. 22, I offer following comments on the proposed revision of Actuarial Standard of Practice (ASOP) No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*.

In general, we support further guidance in ASOP No. 22. The current ASOP No. 22 could benefit from additional guidance and we agree with the Actuarial Standards Board's decision to review and update it. Our overall recommendations include:

- Include references to other ASOPs, such as ASOP No. 25;
- Include discussions of reinvestment rates, leveraging language from Actuarial Guideline LI (AG 51);
- Add clarity to limitations of aggregation of results, particularly related to the requirements of AG 51; and
- Add clarity on the term "guaranteed and nonguaranteed benefits and charges."

We have provided full comments using the requested template below. If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Jamala M. Arland, MAAA, FSA, CFA
Chairperson, LTC Reform Subcommittee Task Force to Review ASOP No. 22
American Academy of Actuaries

[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.

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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 |
|---|
| LTC Reform Subcommittee (Andrew Dalton, Robert Eaton, Peggy Hauser, Matt Klaus, Maria Milazzo, Larry Rubin)/Academy |

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

| Question No. | Commentator Response |
|---|---|
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| | |

**III. Specific Recommendations:**

| Section #<br>(e.g. 3.2.a) | Commentator Recommendation<br>(Please provide recommended wording for any suggested changes) | Commentator Rationale<br>(Support for the recommendation) |
|---|---|---|
| 2.1 | Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. | We find the definition somewhat vague and suggest deferring to the accounting definition of assets. The recommended wording is consistent with the definition of asset as defined in Concept 6 of Elements of Financial Statements of the Financial Accounting Standards Board. |
| 3.1.2.1 | Replace item b. with:<br>The actuary should consider trends in the broader population and how such trends may impact the business that is being modeled. When using company experience to demonstrate a difference between broader population trends and trends for the line of business being modeled, the company should refer to ASOP No. 25. | We believe it's useful to clarify the development of trends. |

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|---|---|---|
| 3.1.2.3 | Investment returns and time value of money<br><br>1. In the case where cash-flow testing is used, the analysis shall represent investment income associated with the business consistently with the way the assets are managed. If a segment of the General Account is used to manage the investment risk, the assets from that segment should be appropriately represented within the asset adequacy analysis whether asset cash flows are explicitly generated or whether a simpler method to reflect investment income is used in the analysis.<br>2. When using an analysis method that requires the use of discount rates, the actuary should choose discount rates that are consistent with the yield on assets held to support the liability, and the method the company uses to manage investment risk. | We believe the assumption could be clearer and should discuss reinvestment rates. Recommended language is consistent with AG51. |
| 3.1.4 | Add wording that states that "the actuary should consider any limitations on the aggregation of results that are specified by applicable law including Actuarial Guideline 51." | We suggest this wording because AG51 only allows aggregation of LTC blocks with non-LTC blocks if a cash-flow testing method was used for LTC and "for all significant blocks of non-LTC business within a company." AG51 only applies to traditional LTC polices (not combination life/annuity policies) and to companies with over 10,000 in force lives covered by LTC policies as of the valuation date.<br><br>The aggregation requirements from section 4.C. of AG51 are shown below as a reference:<br><br>C. When determining whether additional reserves are necessary:<br><br>1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then |

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|---|---|---|
| | | additional reserves shall be established as required by section 2.C.2. of *VM-30*.<br><br>2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block. |
| 3.1.7 | Add a bullet (f) whether the actions require regulatory approval and, if so, the risks of not obtaining those approvals.<br><br>In addition, in the last sentence change "impacts of these changes" to "Impacts of these actions." | Future premium rate increases on in force LTC policies are an example of a management action that requires regulatory approval, which should also be considered by the actuary.<br><br>This section deals with "management actions" rather than "management changes." |
| 3.1.10 | Suggest removing the final sentence of this section or modifying the sentence to clarify its intent. (~~"Similarly, when the analysis is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change within the meaning of this section."~~) | The sentence is vague and not self-explanatory. We cannot suggest wording without understanding the intent. |
| 3.1.11 | Replace the first sentence with:<br>When performing the asset adequacy analysis, the actuary should take into account anticipated material cash flows that are within the boundary of the contract such as renewal premiums, guaranteed and nonguaranteed benefits and charges, future guaranteed purchase options, expenses, and taxes. Factors that may enter into this account include the likely volume of business to be exposed to an inadequate rate situation, the ability to revise the rates and the timing of those revisions, expected policyholder reaction to a rate revision, etc. | The term "guaranteed and nonguaranteed benefits and charges" is quite broad and may benefit from further clarification and/or examples. Specifically, from the perspective of a long-term care insurer, we question whether the term is intended to require that the actuary reflect future increases in coverage and/or entirely new coverage. An example of the former would be a future increase in LTC daily benefit amounts associated with an exercise of guarantee purchase options. An example of the latter would be new certificates issued in the future under an existing group contract.<br><br>We also suggest clarification regarding how the ASOP No. 22 language reconciles with language in the Actuarial Opinion and Memorandum Regulation (Section 5.E.1), which requires that "the statement of actuarial opinion shall apply to all in force business on the statement date…". While we |

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|---|---|---|
| | | appreciate that the Academy will not be able to address all possible situations, we find that some general guidance or selected examples to highlight the meaning of this section might be of use. |

**IV. General Recommendations (If Any):**

| Commentator Recommendation<br>(Identify relevant sections when possible) | Commentator Rationale<br>(Support for the recommendation) |
|---|---|
| | |
| | |

**V. Signature:**

| Commentator Signature | Date |
|---|---|
| Andrew Dalton | 11/11/2020 |
| Robert Eaton | 11/11/2020 |
| Peggy Hauser | 11/11/2020 |
| Matthew Klaus | 11/11/2020 |
| Maria Milazzo | 11/11/2020 |
| Larry Rubin | 11/11/2020 |