Title of Exposure Draft: ASOP No. 24

Comment Deadline: September 30, 2021

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
Life Practice Council Task Force to Review ASOP 24

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

N/A

III. Specific Recommendations:

Please note that our comments include both substantive and organizational comments. While we believe that all the organizational suggestions would facilitate substantive improvements to the ASOP, we recognize that some of our organizational comments may be too significant for the next version of ASOP 24 if the ASB is seeking to expedite updates to incorporate AG 49-A. If that is the case, we encourage the ASB to consider performing a more holistic review of this ASOP in the future and ask that the ASB consider the more significant organizational suggestions during that review.

In addition to this comment document, we have provided a redline document with suggested text edits. The redline document uses the following formatting:

- Blue highlighted text = educational material that is from the model
- Yellow highlighted text = educational material that is not from the model
- ~~Strikethrough~~ text = material that we suggest deleting but used strikethrough so we could show additional rationale/formatting/comments

We note that our task force was divided on some of the recommendations to delete educational material. Some members believe that the large quantity of educational material obscures the actual guidance in the ASOP, while others believe that it is helpful to have all relevant information in one document.

Finally, we note that we have organized our comments into two sections: (1) comments that are directly related to the guidance for AG 49-A and (2) comments that are not directly related to the guidance for AG 49-A.

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Comments That Are Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
All	We suggest consideration of the following topics for additional guidance in the ASOP: • Considerations when setting a hypothetical BIA, including guidance for setting a "supportable current annual cap" and "supportable Index Account." • Guidance for whether the actuary should test the hypothetical Benchmark Index Account.	
3.1	Add "as applicable."	We believe actuaries should only be familiar with AG 49 and AG 49-A as applicable.

Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
All	We suggest consideration of the following topics for additional guidance in the ASOP: • What is considered "recent" actual historical experience? • Expand on the "reasonable principles of expense allocation" (perhaps this could point to another ASOP?) • Aggregation within a policy form for DCS testing (For example, can actuaries combine contracts that are on the same policy form if they have different NGEs? Would the guidance vary if AG 49 or 49-A applies?) • Where is the line between the IA and the responsible officer?	

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Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
1.1	This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to <u>illustrations prepared in accordance with the National Association of Insurance Commissioners (NAIC) Life Insurance Illustrations Model Regulation (Model) and related NAIC actuarial guidelines, pursuant to</u> applicable law (statutes, regulations, and other legally binding authority) ~~based on the National Association of Insurance Commissioners (NAIC) Life Insurance Illustrations Model Regulation (Model) and related NAIC actuarial guidelines or when performing actuarial services with respect to illustrations represented to be in accordance with the Model and related NAIC actuarial guidelines~~.	Clarity. It took our task force several calls to understand what "illustrations represented to be in accordance with the Model" was referring to, and we question whether these illustrations should be covered by this ASOP because illustrations that are not subject to the model need not comply with the model, and this ASOP covers compliance with the model. Therefore, we believe the proposed language would be an appropriate statement of purpose.
1.2	Suggest replacing the first sentence with the following: "This standard applies to actuaries when performing actuarial services with respect to providing an actuarial certification for illustrations prepared in accordance with the *Model,* Actuarial Guideline XLIX (AG 49), and Actuarial Guideline XLIX-A (AG 49-A), pursuant to applicable law."	Clarity. We also believe that it is important to include "illustrations" in the scope language. Also note that official titles of the Actuarial Guidelines use Roman numerals.
1.2	Delete: ~~The Model applies to illustrations for proposals and in-force policies for group and individual life insurance other than variable life insurance. The Model does not apply to individual and group annuity contracts, credit life insurance, and life insurance policies with no illustrated death benefits on any individual exceeding $10,000.~~	This is educational text from the Model and does not provide any guidance.
1.2	Delete: ~~This standard applies to actuaries when performing actuarial services with respect to illustrations in the absence of applicable law if the illustrations are to be represented as being in accordance with the Model, including AG 49 and AG 49-A.~~	It seems unlikely that there would be a complete absence of applicable law for any illustration (even if Model 582 does not apply, another general law would apply). As noted in 1.1, it took our task force several calls to understand what this was referring to, and we question whether these illustrations should be covered by this ASOP. We also question whether every section of the ASOP would be applicable to an actuary in this scenario. (For example, we question whether the actuary would be required to file certifications.)

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Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
1.2	This standard does not apply to actuaries when performing actuarial services with respect to the determination of <u>the scale of</u> nonguaranteed elements ~~payable~~ <u>in effect for a policy form</u>.	Not all NGEs are “payable.” “The scale of NGEs in effect for a policy form” is the language used in the model in the definition of Currently Payable Scale.
1.2	Delete “If the actuary determines that the guidance in this ASOP conflicts with any other ASOP, this ASOP governs.”	Raises more questions than answers and is also unnecessary. This ASOP should only govern over other ASOPs if the difference is due to applicable law, and all ASOPs state that the actuary should comply with applicable law if a conflict exists between ASOPs and applicable law.
1.4	Suggest inserting actual date rather than “two months after adoption by the Actuarial Standards Board.”	Clarity
2.1	Revisit definition of “actual experience.”	The definition of “actual experience” isn’t very descriptive, and we question whether it needs to be a defined term (i.e., the term is self-defining). We note that sometimes actual experience is used in the ASOP in a way that suggests that actual experience is tied to the policy form while other times it is used to describe experience that is not tied to the policy form. If retained, the definition could clarify this issue either way. We also note that it is unclear whether/how “actual experience” compares to “actual recent historical experience,” which is the language used in the model. We also note that the definition includes reference to “trends,” which seems to be in conflict with the Model’s prohibition on the use of trends of improvements in experience beyond the illustration date in Section 4D(3). “Actual experience” is also used in the definition of “experience factor,” so the reference to trends flows into that definition as well.

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Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # (e.g. 3.2.a)	**Commentator Recommendation (Please provide recommended wording for any suggested changes)**	**Commentator Rationale (Support for the recommendation)**
2.4	Revise definition of "experience factor" and revisit use of "experience factor" vs. "assumption" throughout the ASOP.	We believe "experience factors" are intended to be backward-looking (i.e., what actually happened), while "assumptions" are intended to be forward-looking (i.e., what are used to develop the DCS). If this is correct, we recommend revising the definition of "experience factor" to make this distinction clearer, and then revisiting the use of the two terms throughout the ASOP. For example, it seems like "assumptions underlying the DCS" is more accurate than "experience factors underlying the DCS," but both are used. We also believe "experience factors" is used where assumptions are being described, particularly throughout 3.4.1. We also note that a variety of verbs are used before "experience factors" throughout the ASOP, which also contributes to some confusion: "setting," "using," "determining," "developing," "basing," "updating," "reviewing." Where possible, we suggest more consistent verb usage and note that "determining" seems appropriate for experience factors and "setting," "developing," and "using" seem more appropriate for assumptions.
2.9	Un-bold "anticipated **experience factors**"	We believe this phrase is a reference to a concept in ASOP No. 2, not the defined term in ASOP No. 24.
3.2	Revisit: "The appointment should be in writing and should describe the scope of the illustration actuary's responsibilities and establish the effective date."	The text does not appear to be guidance to the actuary.
3.2	Replace the last sentence with: "When accepting or withdrawing from the appointment, the actuary should document such actions in writing."	Suggested text in the form of guidance.

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Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
3.3	Revise as follows: 3.3 Illustrated Scale ~~Requirements~~—The actuary should ensure that the <u>scale of nonguaranteed elements currently being illustrated is not more favorable to the policyholder than the lesser of the disciplined current scale or the currently payable scale</u>. ~~illustrated scale meets the requirements imposed by the Model as follows.~~ ~~3.3.1 Currently Payable Scale—The illustrated scale must not be more favorable to the policyholder than the currently payable scale at any duration.~~ ~~3.3.2 Disciplined Current Scale—The illustrated scale must not be more favorable to the policyholder than the disciplined current scale at any duration.~~ In addition, if AG 49 is applicable, the actuary should ensure that the interest credited rate for the illustrated scale for each indexed account is limited in accordance with AG 49. If AG 49-A is applicable, the actuary should ensure that the total annual rate of indexed credits for the illustrated scale for each indexed account is limited in accordance with AG 49-A.	We suggest striking requirements because the ASOP should neither set nor restate requirements. We suggest replacing "illustrated scale" with "scale of NGEs currently being illustrated" because the illustrated scale, by definition, is no more favorable than the CPS or DCS, so the language didn't make sense. "Scale of NGEs currently being illustrated" is the language used in the model. We suggest removing 3.3.1 and 3.3.2 because it is educational text from the Model and does not provide any guidance. Note that there was also some debate among our task force as to whether this should be the role of the responsible officer rather than the illustration actuary.
3.4	Replace the first sentence of 3.4 with: "The actuary should ensure that the disciplined current scale meets the requirements imposed by the Model."	This is good guidance. We believe the existing sentence can be removed because it was a placeholder to lead into the subsections (which we suggest deleting in the next comment).
3.4	Remove subsection headings 3.4.1 and 3.4.2 and merge content into one section 3.4	Most of the content in subsection 3.4.2 is redundant with other parts of the ASOP (see specific comments below), and the content that we suggest retaining from 3.4.2 (see comment below) could be merged into the main section.
3.4.1	"The actuary should use experience as analyzed within the insurer's nonguaranteed element framework when setting experience factors underlying the disciplined current scale."	We note that the model uses "actual recent historical experience" and suggest being consistent with the model. Also, we think it would be helpful to provide guidance to the actuary when identifying or using actual recent historical experience (e.g., what is considered recent).

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Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
3.4.1	Revisit: "To the extent actual experience is determinable, available, and credible, the actuary should use actual experience when setting experience factors underlying the disciplined current scale. When such suitable data are lacking, the actuary should use experience factors that have been derived in a reasonable and appropriate manner from actual experience of other similar classes of business."	These two sentences together seem to imply that "actual experience" as used in the first sentence is directly tied to the illustrated policy form. However, the definition of "actual experience" (and other uses of the term) does not seem to require this linkage. In the first sentence, we believe "experience factors underlying the DCS" should be "<u>assumptions</u> underlying the DCS." In the second sentence, the use of "experience factors" doesn't align with its definition because experience factors, by definition, represent the actual experience of a policy form.
3.4.1	Replace text with reference to Setting Assumptions ASOP	We believe much of the text in this section should be replaced with a reference to the new Setting Assumptions ASOP. Only guidance that is unique to ASOP No. 24 should remain.
3.4.1.a	Revisit this section	There is good guidance in part a, but it seems disorganized. We question why "net of default costs" is singled out in the introductory sentence and suggest that "default costs" could instead be included in the broader list of considerations in the last sentence of this section. Note that investment expenses may be reflected in the experience factor or treated separately as expenses (same section of the ASOP). We also note that some of the guidance in this section is not unique to investment return assumptions and could be more general guidance for all assumptions. Finally, we note that some of the text is not written in the form of guidance.
3.4.1.b	The actuary should base the mortality experience factors on the insurer's actual <u>recent historical</u> experience, if credible, adjusted for risk class. In setting mortality experience factors, the actuary should use credible variations by age, gender, duration, marketing method, plan, size of policy, policy provisions, risk class, and other items (or a combination thereof) consistent with the insurer's structure of mortality experience factor classes. To the extent that the insurer's recent actual experience is not ~~sufficiently~~ credible, …	Model requires the use of actual recent historical experience. First sentence uses credible without "sufficiently," so we recommend parallel usage later in the paragraph.

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Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
3.4.1.c	The actuary should base the premium continuation and policy persistency rates on the insurer's actual <u>recent historical </u>experience, if credible, for this or similar policy forms. The actuary should use credible variations by age, gender, duration, marketing method, plan, size of policy, policy provisions, risk class, and other items (or a combination thereof) consistent with the insurer's structure of persistency experience factor classes. To the extent that the insurer's recent actual experience is not ~~sufficiently~~ credible, …	Same rationale as for 3.4.1.b.
3.4.1.e	We suggest revising the first paragraph of this section with the following text: "All Other Expenses—As described in the Model, the actuary should ~~use minimum expenses in the calculation of the disciplined current scale, based on~~ <u>reflect all other expenses</u> using one of the following methods. "	More parallel with (d).
3.4.1.e	We suggest removing the following from 3.4.1.e.1: "Some expenses are direct in that they can be specifically related to a particular policy form. Other expenses, such as general overhead costs, are indirect. Direct expenses should be charged to the groups of policies generating the related costs. Indirect expenses should be fully allocated using reasonable principles of expense allocation. Nonrecurring costs, such as systems development costs, may be spread over a reasonable number of years (for example, system lifetime) in determining the allocable expenses for a particular year."	Some of the text is educational and not guidance. We suggest moving the guidance out of the list as shown in the redline and discussed in a later comment.
3.4.1.e	We suggest deleting the following two paragraphs: "If no GRET is approved and available, the Model requires the use of fully allocated expenses. If a GRET is approved and available, the Model allows the use of either a GRET or fully allocated expenses. If marginal expenses generate aggregate expenses that are greater than those generated by a GRET, the Model also permits the use of the marginal expenses."	Text is educational and not guidance.

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Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
3.4.1.e	We suggest revising the remaining paragraphs as follows: "The actuary should use a single expense factor ~~basis~~ method for all policy forms tested. For example, the actuary should not use marginal expenses for one policy form and fully allocated expenses for another policy form. Once the actuary selects the ~~unit~~ expense ~~basis~~ factor method, the actuary should use ~~that basis~~ the same method for the entire certification year. When calculating unit expenses, the actuary should ~~select~~ use average policy size and sales volume ~~of sales~~ assumptions that are appropriate for the policy form. When allocating expenses that are not specifically related to a policy form, such as general overhead costs, the actuary should use reasonable principles of expense allocation. In addition, the actuary may consider spreading nonrecurring costs, such as systems development costs, over a reasonable number of years (for example, system lifetime)."	Consistent use of terminology. The last paragraph is the guidance pulled out of the prior list. We note that the guidance for the actuary to use "reasonable principles of expense allocation" doesn't provide much guidance and we suggest expanding on that guidance.
3.4.1.f	The actuary should ~~recognize~~ reflect income taxes in accordance with their impact by duration in the development of the disciplined current scale.	"Recognize" doesn't seem like the right word here. Suggest "reflect" or some other verb.
3.4.1.f	~~Details of t~~Taxation practices vary widely, depending on the applicable law in various jurisdictions.	"Details of taxation" doesn't seem like the right phrase here. Suggest "taxation practices" or perhaps simply "taxation."
3.4.1.f	Revisit: "The actuary should take into account the insurer's actual practices for allocating taxes for nonguaranteed elements in determining the tax experience factor."	We do not understand what "taxes for nonguaranteed elements" is referring to.
3.4.1.g	Merge this section with 3.8	3.4.1.g and 3.8 describe the same concepts.

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Section # (e.g. 3.2.a)	**Commentator Recommendation (Please provide recommended wording for any suggested changes)**	**Commentator Rationale (Support for the recommendation)**
3.4.2	~~The actuary should select assumptions underlying an insurer's disciplined current scale that logically and reasonably relate to actual experience as reflected within the insurer's nonguaranteed element framework.~~ The actuary should update the assumptions underlying the disciplined current scale to reflect changes in the experience factors once changes have been determined to be significant and ongoing.	The first sentence repeats material from 3.4.1. The second sentence can be merged with the content in the recommended section 3.4, perhaps as its own lettered paragraph.
3.4.1 and 3.4.2	Revise text from 3.4.1 and 3.4.2 as shown and move to new lettered paragraph 3.4.i. "i. Trends— As ~~required~~ set forth by the Model, the actuary should not ~~use experience factors underlying the disciplined current scale that do not~~ include any projected trends of improvement nor any assumed improvements in experience beyond the effective date of the ~~illustrated~~ disciplined current scale~~, except as provided in section 3.8 of this standard~~. ~~Actual experience may exhibit improvements from year to year. As required by the Model, the actuary should not assume such trends in improvement continue into the future beyond the effective date of the disciplined current scale underlying the illustration.~~ If trends indicate that significant and continuing deterioration in an experience factor has occurred or, in the actuary's professional judgment, is likely to occur between the date of the experience study and the effective date of the disciplined current scale ~~underlying the illustration~~, the actuary should recognize such deterioration in determining the assumptions to be used."	The first paragraph is from 3.4.1, second and third paragraphs shown are from 3.4.2. We recommend combining the content into one lettered paragraph because it is prudent to have all trend-related guidance in one place. The limitation on trends outlined in the first paragraph is specified in the DCS section of the model so we think the language should reference the DCS vs. illustrated scale. The second paragraph is duplicative of the first, so we recommend deleting. The first paragraph states that section 3.8 is an exception to the law. We do not see how the ASOP can deviate from law.
3.4.2	Move to 3.8: "When an insurer introduces a change in underwriting practice (for example, adding a new underwriting class) that is not expected to change the insured population, the actuary should divide the actual experience into the new underwriting classes in such a way that actual experience is reproduced in the aggregate."	Combine content related to the same concept.

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Section # (e.g. 3.2.a)	**Commentator Recommendation (Please provide recommended wording for any suggested changes)**	**Commentator Rationale (Support for the recommendation)**
3.5	Revise first paragraph as follows: ~~Requirements for~~ Self-Support <u>Testing</u>—~~The Model requires the illustrations for every policy form within the scope of the regulation to be self-supporting according to the assumptions underlying the insurer's disciplined current scale.~~ The actuary should perform ~~a~~ self-support test<u>ing</u> to demonstrate that ~~new business~~ illustrations are self-supporting as defined in the Model.	We suggest striking requirements because the ASOP should neither set nor restate requirements. We suggest striking the first sentence because it is educational text from the Model and does not provide any guidance. We suggest changing from "a self-support test" to "self-support testing" because testing is an ongoing process (not a one-time action). We suggest deleting "new business" because self-support testing is also required for in-force illustrations, so new business is potentially misleading.
3.5	Replace second paragraph with the following: "When performing a self-support test for a policy form, the actuary may test underwriting classification factors (such as age, gender, and risk class) and policy factors (such as policy size, premium payment pattern, dividend option, coverage riders, and policy loans) in aggregate if, in the actuary's professional judgment, such combinations would be appropriate. If testing is done in the aggregate, the actuary should select assumptions for the distribution between factors that are based on **actual experience**, if available, recognizing possible shifts in distribution toward any portions of the business that do not meet the self-support test in their own right."	Much of the text in this paragraph was not written in the form of guidance, so we have suggested text in the form of guidance.
3.5	Replace the third paragraph with the following: "If AG 49 is applicable, the actuary should ensure that any aggregation of index accounts complies with AG 49."	Clarity.
3.6	Revise title: ~~Requirements to Prevent Lapse-Supported Illustrations~~ <u>Lapse-Support Testing</u>	We suggest striking requirements because the ASOP should neither set nor restate requirements. Also, lapse-supported illustrations are allowed for policies that can never develop nonforfeiture values, so the heading is potentially misleading.
3.6	Add new first sentence: "When applicable, the actuary should perform lapse-support testing to demonstrate that new business illustrations are not lapse-supported as defined in the Model."	Good guidance.

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Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
3.6	Delete: ~~The *Model* prohibits illustration of **nonguaranteed elements** in policies that are deemed to be lapse-supported and establishes a lapse-support test to demonstrate compliance with this requirement. The lapse-support test requires that the policy form in question be self-supporting under the same assumptions and with the same level of aggregation as described in section 3.5 of this standard, changing only the persistency assumption. The modified persistency rate assumption will use the persistency rates underlying the **disciplined current scale** for the first five policy years and 100% policy persistency thereafter.~~	The model does not have a blanket prohibition of illustrations that are lapse-supported, so the first sentence is potentially misleading. The rest of this text is educational text from the Model and does not provide any guidance.
3.6	~~In~~When performing ~~the~~ a lapse-support test for a policy form, the actuary should assume that benefits that are conditional only upon policy continuation will be provided to all policies in force at the end of year five and surviving to the date of such benefits. For policy forms that provide benefits that are conditional upon certain premium payment patterns, the actuary should decide whether all policies in force ~~to~~ at the end of year five will qualify for such benefits and appropriately reflect this assumption in the lapse-support test.	Style suggestions.
3.6	Delete: ~~As stated in the *Model*, policy forms that can never develop nonforfeiture values, such as certain term coverages, are exempt from the lapse-support test. The *Model* requires that these policy forms pass the self-support requirement.~~	Educational text from the Model and does not provide any guidance.
3.7	Replace title with “In Force Illustrations”	This is the terminology used in the model.
3.7	Replace the lead-in to a, b, c, with the following: “For illustrations on policies in force for one year or more, the actuary should ensure that the disciplined current scale continues to comply with the Model. The actuary should update the experience factors, revise the assumptions underlying the disciplined current scale, and develop a new disciplined current scale unless any of the following apply:” Delete the paragraph after a, b, c.	Much of the text in this paragraph was not written in the form of guidance, so we have suggested text in the form of guidance. Also, the annual certification content should fall under section 3.12. The content from the paragraph after a, b, c, is captured in the suggested lead-in.

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3.7	~~In the context of in-force illustrations f~~For policies receiving distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block), the actuary may include these distributions ~~both~~ in the disciplined current scale ~~and in the illustrated scale~~, but only to the extent that (1) such distributions are currently being paid to the policyholders by the insurer and (2) the insurer has indicated its intent and ability to continue to do so for the foreseeable future. Proposed alternate sentence: The actuary should not include distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block) in the disciplined current scale unless (1) the distributions are currently being paid to the policyholders by the insurer and (2) the insurer has indicated its intent and ability to continue to do so for the foreseeable future.	This entire section is for in-force illustrations. Including the distributions in both the DCS and the illustrated scale seems like double counting. Alternate sentence provided for your consideration.
3.7	Delete: ~~The actuary may use such accumulated surplus or prior gains in conducting the tests for self-support and lapse-support.~~	If the distributions are included in the DCS then they're included for the tests of the DCS.
3.8	Consider merging with 3.4	3.4 and 3.8 both relate to assumptions for DCS, so it may be appropriate to combine into one section.
3.8	Suggest replacing first paragraph with the following: "Changes in Insurer Practice—The actuary should consider updating the assumptions underlying the **disciplined current scale** to reflect changes in the insurer's practice such as the following:"	Clarify in the title that the changes are in insurer practice, not some other practice (e.g., actuarial practice). We recommend moving some of the replaced text down to the last paragraph to combine similar concepts together in this section.
3.8	Suggest replacing the last paragraph with the following: "The actuary should not update the assumptions underlying the **disciplined current scale** if such changes in the insurer's practice are merely planned for in the future and have not been made. If a change has been made, but not enough time has elapsed for it to be reflected in the insurer's **actual experience**, the actuary may nevertheless reflect the change in the assumptions underlying the **disciplined current scale**."	We believe this text combines similar concepts together in this section and the text is in the form of the guidance.

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Section # (e.g. 3.2.a)	**Commentator Recommendation (Please provide recommended wording for any suggested changes)**	**Commentator Rationale (Support for the recommendation)**
3.12	Add new first sentence: "The illustration actuary should provide certifications as required in the Model."	Good guidance. We also note that there is no discussion of the interplay between the IA and the responsible officer. It may be appropriate to give guidance on where the IA's responsibilities end.
3.12	Delete: ~~The *Model* requires the **illustration actuary** to certify that (1) the **disciplined current scale** used in illustrations is in conformity with this standard and (2) that the **illustrated scales** used in insurer-authorized illustrations meet the requirements of the *Model*.~~ ~~As required by the *Model*, the **illustration actuary** should provide a certification for a new policy form before it is illustrated and should provide an annual certification for all policy forms for which illustrations are used. Additionally, the **illustration actuary** should file certifications with the board of directors of the insurer and with the commissioner.~~ ~~3.12.1 Notice of Inability to Certify—If an **illustration actuary** is unable to certify the **illustrated scale** for any policy form the insurer intends to use, the actuary should notify the board of directors of the insurer and the commissioner promptly of his or her inability to certify, as required by the *Model*.~~ ~~3.12.2 Notice of Error in Certification—~~[Note some of the text in 3.12.2 is educational, but may be appropriate to keep as lead-in to subsequent guidance].	Text is educational from the model and not guidance.
3.13	Replace "construction" with "development"	Consistency with language used in the rest of the ASOP
4.1	~~In actuarial reports related to certifications, the actuary should include the following~~ <u>In addition, the actuary should disclose the following, whether or not required by applicable law:</u> a. ~~a statement~~ whether… b. ~~a summary of~~ any…<u>(see section 3.4)</u> c. ~~a disclosure of~~ any… d. ~~a disclosure of~~ any… e. ~~a disclosure of~~ any…	No need to specify where the disclosures take place; note that some of these disclosures take place in the certifications themselves (i.e., not in a report related to the certification). Worthwhile to note that some of these are required by applicable law.

Title of Exposure Draft: ASOP No. 24

Comment Deadline: September 30, 2021

Comments That Are Not Directly Related to Guidance for AG 49-A		
Section # **(e.g. 3.2.a)**	**Commentator Recommendation** **(Please provide recommended wording for any suggested changes)**	**Commentator Rationale** **(Support for the recommendation)**
4.1	"In addition, when making an annual certification, the illustration actuary ~~must~~ should include the additional disclosures required by the Model for annual certifications."	The disclosure in 4.1.a is required by the model, so adding "additional" or "other" seems appropriate.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Change all instances of "must" to "should" throughout this ASOP.	Consistency: ASOP states that the actuary "should" comply with applicable laws.

V. Signature:

Commentator Signature	Date
Laura Hanson, FSA, MAAA (Task Force Chair) Tom Bakos, FSA, MAAA Michael Beeson, FSA, MAAA Tom Berry, FSA, MAAA Michael Fong, FSA, MAAA Matt Monson, FSA, MAAA Chuck Ritzke, FSA, MAAA	November 9, 2021

ACTUARIAL STANDARDS BOARD

● **EXPOSURE DRAFT** ●

Proposed Revision of
Actuarial Standard
of Practice
No. 24

Compliance with the NAIC Life Insurance Illustrations Model Regulation

Comment Deadline:
September 30, 2021

Developed by the
Task Force to Revise ASOP No. 24 of the
Life Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
June 2021

Doc. No. XXX

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EXPOSURE DRAFT—June 2021

June 2021

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Compliance with the NAIC Life Insurance Illustrations Model Regulation

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 24

This document contains the exposure draft of a proposed revision of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found here and submitted electronically to comments@actuary.org. Include the phrase "ASOP No. 24 COMMENTS" in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received on 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 on 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.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of comments: **September 30, 2021**

History of the Standard

The ASB adopted ASOP No. 24, *Compliance with the NAIC Life Illustrations Model Regulation*, in 1995. Since the promulgation of the original standard, life insurance product innovation has continued. In 2007, ASOP No. 24 was revised to be consistent with the then-current ASOP format and to update and reflect current, appropriate actuarial practices with respect to illustrations prepared in compliance with the *Life Insurance Illustrations Model Regulation* (*Model*). In 2015, the National Association of Insurance Commissioners (NAIC) released Actuarial Guideline XLIX~~49~~ (AG 49) to clarify certain requirements of the *Model* related to policies with index-based interest credits and further amended AG 49 in September 2016. In December 2016, ASOP No. 24

was revised to reflect the changes effected through AG 49, to clarify certain guidance, and to be consistent with the then-current style and format used for ASOPs.

In 2020, the NAIC released Actuarial Guideline XLIX~~49~~-A (AG 49-A) for illustrations of policies with indexed credits linked to an index or indices sold on or after December 14, 2020. The NAIC also amended AG 49 to sunset its applicability to illustrations of policies sold on or after this date and to allow insurers to elect to apply AG 49-A to new illustrations of policies sold prior to this date that otherwise would be subject to AG 49. In 2021, the ASB decided to revise this ASOP to reflect the changes effected through AG 49-A and to be consistent with the current style and format used for ASOPs.

Notable Changes from the Existing ASOP

Notable changes made to the existing ASOP are summarized below.

1. In section 1.2, the scope was updated to reference AG 49-A.

2. In section 3.1, the regulatory requirements were updated to include AG 49-A.

3. In section 3.3, the guidance on the interest credited rate was moved to the paragraph at the end of the section and updated to include guidance on AG 49-A.

4. In section 3.4.1(a), the guidance for investment return was clarified and updated to include a reference to the scope of and limitations imposed by AG 49-A.

5. In section 3.4.1(e), the language was clarified.

6. In section 3.5, the summary of *Model* requirements for the self-support test was replaced by a reference to the *Model*, and a statement was added distinguishing between the requirements of AG 49 and AG 49-A

7. In section 3.9, now titled Reliance on Others for Data or Other Information, Projections, and Supporting Analysis, the guidance was expanded to cover projections and supporting analysis and to require the actuary to refer to ASOP Nos. 41, *Actuarial Communications*, and 56, *Modeling*.

8. Section 3.10, Reliance on Assumptions or Methods Selected by Another Party, was added.

9. Section 3.11, Reliance on Another Actuary, was added.

10. The guidance on certifications and inability to certify that was previously in section 4.1 was moved to section 3.12. The guidance on certification disclosures was replaced with a reference to disclosures required by the *Model* in new section 4.1.

11. The guidance on notice of error in certification that was previously in section 4.2 was moved to section 3.12.2.

12. The guidance on documentation previously in section 3.10 was moved to section 3.13, and guidance was added.

13. Section 4 was restructured.

Request for Comments

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

The ASB voted in June 2021 to expose this draft for comments.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

PROPOSED ACTUARIAL STANDARD OF PRACTICE NO. 24

COMPLIANCE WITH THE NAIC LIFE INSURANCE ILLUSTRATIONS MODEL REGULATION

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to illustrations prepared in accordance with the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation* (*Model*) and related NAIC actuarial guidelines, pursuant to applicable law (statutes, regulations, and other legally binding authority)~~ based on the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation* (*Model*) and related NAIC actuarial guidelines or when performing actuarial services with respect to illustrations represented to be in accordance with the *Model* and related NAIC actuarial guidelines~~.

1.2 Scope—This standard applies to actuaries when performing actuarial services ~~to provide or support~~with respect to providing an actuarial certification for illustrations prepared in accordance with the *Model*, Actuarial Guideline XLIX (AG 49), and Actuarial Guideline XLIX-A (AG 49-A), pursuant to ~~an~~ applicable law ~~based on the *Model*, including NAIC Actuarial Guideline 49 (AG 49) and Actuarial Guideline 49-A (AG 49-A)~~. ~~The *Model* applies to illustrations for proposals and in-force policies for group and individual life insurance other than variable life insurance. The *Model* does not apply to individual and group annuity contracts, credit life insurance, and life insurance policies with no illustrated death benefits on any individual exceeding $10,000.~~

~~This standard applies to actuaries when performing actuarial services with respect to illustrations in the absence of applicable law if the illustrations are to be represented as being in accordance with the *Model*, including AG 49 and AG 49-A.~~

This standard does not apply to actuaries when performing actuarial services with respect to the determination of the scale of **nonguaranteed elements** ~~payable~~in effect for a policy form. Determination of these items, as well as illustrations not included in the scope of this ASOP, are covered by ASOP No. 2, *Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*, or ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*.

~~If the actuary determines that the guidance in this ASOP conflicts with any other ASOP, this ASOP governs.~~

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4. If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for actuarial services performed on or after two months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP. Definitions in sections 2.2, 2.3, 2.6, 2.7, and 2.8 are intended to conform to those in the *Model*.

2.1 Actual Experience—Historical results and trends in those results.

2.2 Currently Payable Scale—A scale of **nonguaranteed elements** in effect for a policy form as of the preparation date of the illustration or declared to become effective within the next 95 days.

2.3 Disciplined Current Scale—A scale of **nonguaranteed elements**, certified annually by the **illustration actuary**, constituting a limit on illustrations currently being illustrated by an insurer that is reasonably based on actual recent historical experience and that satisfies the requirements set forth in the *Model*.

2.4 Experience Factor—A value or set of values that represents the **actual experience** of a policy form. Examples of **experience factors** include rates of mortality, expense, investment income, termination, and taxes.

2.5 Experience Factor Class—A group of policies for which **nonguaranteed elements** are determined by using common numerical values of a particular **experience factor**.

2.6 Illustrated Scale—A scale of **nonguaranteed elements** currently being illustrated that is not more favorable to the policyholder than the lesser of the **disciplined current scale** or the **currently payable scale**.

2.7 Illustration Actuary—An actuary who is appointed in accordance with the requirements set forth in the *Model*.

2.8 Nonguaranteed Element—Any element within an insurance policy that affects policy costs or values that is not guaranteed or not determined at issue. A **nonguaranteed element** may provide a more favorable value to the policyholder than that guaranteed at the time of issue of the policy. Examples of **nonguaranteed elements** include policy dividends, excess interest credits, mortality charges, expense charges, indeterminate premiums, and participation rates and maximum rates of return for indexed life insurance products.

2.9 Nonguaranteed Element Framework—The structure by which the insurer determines **nonguaranteed elements**. This includes the assignment of policies to **experience factor classes**, the method of allocating income and costs, and the structure of the formulas or other methods of using **experience factors**. For participating policies, this would include the dividend framework defined in ASOP No. 15. For ~~life~~ policies within the scope of ASOP No. 2, the **nonguaranteed element framework** would include the concepts of policy class, determination policy, and anticipated **experience factors**.

Section 3. Analysis of Issues and Recommended Practices

3.1 Regulatory Requirements—The *Model* contains detailed instructions, technical requirements, and prohibitions regarding many aspects of illustrations. Actuaries providing actuarial services within the scope of this standard should be familiar with the *Model*, AG 49, AG 49-A, and any applicable state law based on the *Model* (including state variations).

3.2 Appointment as Illustration Actuary—Before accepting an appointment as an **illustration actuary**, the actuary should determine that he or she meets the qualifications described in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States*. The appointment should be in writing and should describe the scope of the **illustration actuary's** responsibilities and establish the effective date. When accepting or withdrawing from the appointment, the actuary should document such actions in writing~~Acceptance of or withdrawal from the position should also be in writing~~.

~~3.3~~ Illustrated Scale~~—Requirements~~—The actuary should ensure that the scale of **nonguaranteed elements** currently being illustrated is not more favorable to the policyholder than the lesser of the **disciplined current scale** or the **currently payable scale**. ~~**illustrated scale** meets the requirements imposed by the *Model* as follows.~~

~~3.3.1 Currently Payable Scale—The **illustrated scale** must not be more favorable to the policyholder than the **currently payable scale** at any duration.~~

~~3.3.2 Disciplined Current Scale—The **illustrated scale** must not be more favorable to the policyholder than the **disciplined current scale** at any duration.~~

In addition, if AG 49 is applicable, the actuary should ensure that the interest credited rate for the **illustrated scale** for each indexed account is limited in accordance with AG 49. If AG 49-A is applicable, the actuary should ensure that the total annual rate of indexed credits for the **illustrated scale** for each indexed account is limited in accordance with AG 49-A.

3.4 Developing the Disciplined Current Scale—The actuary should ensure that the **disciplined current scale** meets the requirements imposed by the *Model*. ~~The actuary should take into account the following when developing the **disciplined current scale**:~~

~~3.4.1 Assumptions Underlying the Disciplined Current Scale—~~The actuary should use experience as analyzed within the insurer's **nonguaranteed element framework** when setting ~~**experience factors**~~ the assumptions underlying the **disciplined current scale**. To the extent **actual experience** is determinable, available, and credible, the actuary should use **actual experience** when setting **experience factors** underlying the **disciplined current scale**. When such suitable data are lacking, the actuary should use **experience factors** that have been derived in a reasonable and appropriate manner from **actual experience** of other similar classes of business. Similar classes may be found within the same company, may be found in other companies, or may be from other sources, in that order of preference. When determining the extent to which **actual experience** is credible, the actuary should refer to ASOP No. 25, *Credibility Procedures*. ~~As required by the *Model*, the actuary should use **experience factors** underlying the **disciplined current scale** that do not include any projected trends of improvement nor any assumed improvements in experience beyond the effective date of the **illustrated scale**, except as provided in section 3.8 of this standard.~~

The actuary should take into account the following when setting assumptions:

a. Investment Return—The actuary should use an investment return **experience factor** based on recent actual investment experience, net of default costs, of the assets supporting the policy block. When developing the investment return **experience factor** for policies with interest credits or other enhancements to policy values that are linked to an index or indices, the actuary should take into account that the investment return **experience factor** may be sensitive to business or economic cycles and should use an appropriate time frame commensurate with such cycles along with the characteristics of the underlying index or indices in determining recent **actual experience**. When determining the investment return **experience factor** for policies within the scope of AG 49 or AG 49-A, the actuary should comply with limitations imposed on the assumed earned interest rate underlying the **disciplined current scale**.

The actuary should have a reasonable basis for allocating investment income to policies, whether using the portfolio, segmentation, investment generation, or any other method. The actuary should develop the investment return **experience factors** using the same method that is used to allocate investment income to policies. The investment return **experience factors** may be net of investment expenses or, alternatively, investment expenses may be treated separately as expenses.

The actuary should use procedures that have a reasonable theoretical basis for determining the investment return **experience factors**. In determining the investment return **experience factors**, the actuary should reflect the insurer's actual practice for **nonguaranteed elements** with respect to realized and unrealized capital gains and losses, investment hedges, policy loans, and other investment items.

b. Mortality—The actuary should base the mortality **experience factors** on the insurer's recent **actual experience**, if credible, adjusted for risk class. In setting mortality **experience factors**, the actuary should use credible variations by age, gender, duration, marketing method, plan, size of policy, policy provisions, risk class, and other items (or a combination thereof) consistent with the insurer's structure of mortality **experience factor classes**. To the extent that the insurer's recent **actual experience** is not ~~sufficiently~~ credible, the actuary should use other credible industry mortality experience, appropriately modified to reflect the insurer's underwriting practices. If no credible industry mortality experience is available, the actuary should use professional judgment in modifying other sources of information (for example, general population mortality tables) in order to develop the mortality assumption.

c. Persistency—The actuary should base the premium continuation and policy persistency rates on the insurer's recent **actual experience**, if credible, for this or similar policy forms. The actuary should use credible variations by age, gender, duration, marketing method, plan, size of policy, policy provisions, risk class, and other items (or a combination thereof) consistent with the insurer's structure of persistency **experience factor classes**. To the extent that the insurer's recent **actual experience** is not ~~sufficiently~~ credible, the actuary should use other credible industry experience such as that from LIMRA, appropriately modified to reflect the actuary's professional judgment regarding differences between the policy form and the basis for the industry experience.

d. Direct Sales Expenses—The actuary should reflect agent commissions, overrides, and other direct compensation determined by formula or incurred as a consequence of sales in a manner consistent with new business activities that generate the cost and are excluded from the expense factors given in sections 3.4.1(e)(1-3) below.

e. All Other Expenses—As described in the *Model*, the actuary should ~~use minimum expenses in the calculation of the **disciplined current scale**, based on~~ reflect all other expenses using one of the following methods:

1. Fully Allocated—Unit expenses reflecting total expenses recently incurred by the insurer when applied to both in force or newly issued

policies are considered fully allocated. ~~Some expenses are direct in that they can be specifically related to a particular policy form. Other expenses, such as general overhead costs, are indirect. Direct expenses should be charged to the groups of policies generating the related costs. Indirect expenses should be fully allocated using reasonable principles of expense allocation. Nonrecurring costs, such as systems development costs, may be spread over a reasonable number of years (for example, system lifetime) in determining the allocable expenses for a particular year.~~

2. Marginal—Marginal ~~–~~expenses are unit expenses calculated in a manner similar to fully allocated ~~unit~~ expenses except that indirect expenses, such as corporate overhead and general advertising, are not allocated to the policy forms.

3. Generally Recognized Expense Table (GRET)—GRET unit expenses are obtained from an industry expense study based on fully allocated expenses representing a significant portion of insurance companies and approved for use by the NAIC or by the commissioner.

~~If no GRET is approved and available, the *Model* requires the use of fully allocated expenses.~~

~~If a GRET is approved and available, the *Model* allows the use of either a GRET or fully allocated expenses. If marginal expenses generate aggregate expenses that are greater than those generated by a GRET, the *Model* also permits the use of the marginal expenses.~~

The actuary should use a single expense factor ~~basis~~ method for all policy forms tested. For example, the actuary should not use marginal expenses for one policy form and fully allocated expenses for another policy form.

Once the actuary selects the ~~unit~~ expense ~~basis~~factor method, the actuary should use ~~that basis~~the same method for the entire certification year.

When calculating unit expenses, the actuary should ~~select~~ use average policy size and sales volume ~~of sales~~ assumptions that are appropriate for the policy form.

When allocating expenses that are not specifically related to a policy form, such as general overhead costs, the actuary should use reasonable principles of expense allocation. In addition, the actuary may consider spreading nonrecurring costs, such as systems development costs, over a reasonable number of years (for example, system lifetime).

f. Taxes—The actuary should reflect all cash flows arising from applicable taxes. The actuary should ~~recognize~~ reflect income taxes in accordance with their impact by duration in the development of the **disciplined current scale**. The actuary may treat non-income taxes that are classified as investment taxes as a deduction from the investment return or may reflect them separately. The actuary may reflect other categories of taxes, such as premium taxes or employment taxes, separately or include them in the category of all other expenses, as outlined in section 3.4.1(e) above.

~~Details of t~~Taxation practices vary widely, depending on the applicable law in various jurisdictions. The actuary should take into account the insurer's actual practices for allocating taxes for **nonguaranteed elements** in determining the tax **experience factor**.

g. Changes in Methodology—When an insurer changes its methodology in determining **nonguaranteed elements** (for example, changing from portfolio rate methodology to a new money rate methodology or adding a new underwriting class), the actuary should appropriately modify assumptions underlying the **disciplined current scale** to reflect the new methodology.

h. Other Lines of Business—If other lines of business are considered investments of the illustrated block of business, the actuary should decide whether cash flows originating in such lines should be recognized in the assumptions underlying the **disciplined current scale**. In deciding whether and how to reflect these cash flows, the actuary should take into account the time horizon of the investment/investor relationship and the insurer's actual practice for reflecting these cash flows in determining **nonguaranteed elements**.

i. Trends— As ~~required~~ set forth by the *Model*, the actuary should not ~~use **experience factors** underlying the **disciplined current scale** that do not~~ include any projected trends of improvement nor any assumed improvements in experience beyond the effective date of the ~~**illustrated**~~ **disciplined current scale**, except as provided in section 3.8 of this standard. ~~**Actual experience** may exhibit improvements from year to year. As required by the *Model*, the actuary should not assume such trends in improvement continue into the future beyond the effective date of the **disciplined current scale** underlying the illustration.~~

If **actual experience** indicates that significant and continuing deterioration in an **experience factor** has occurred or, in the actuary's professional judgment, is likely to occur between the date of the experience study and the effective date of the **disciplined current scale** ~~underlying the illustration~~, the actuary should recognize such deterioration in determining the assumptions to be used.

~~3.4.2 Relationship of Actual Experience to Disciplined Current Scale—The actuary should select assumptions underlying an insurer's **disciplined current scale** that logically and reasonably relate to **actual experience** as reflected within the insurer's **nonguaranteed element framework**.~~ The actuary should update the assumptions underlying the disciplined current scale to reflect changes in the experience factors once changes have been determined to be significant and ongoing.

~~**Actual experience** may exhibit improvements from year to year. As required by the *Model*, the actuary should not assume such trends in improvement continue into the future beyond the effective date of the **disciplined current scale** underlying the illustration.~~

~~If trends indicate that significant and continuing deterioration in an **experience factor** has occurred or, in the actuary's professional judgment, is likely to occur between the date of the experience study and the effective date of the **disciplined current scale** underlying the illustration, the actuary should recognize such deterioration in determining the assumptions to be used.~~

~~When an insurer introduces a change in underwriting practice (for example, adding a new underwriting class) that is not expected to change the insured population, the actuary should divide the **actual experience** into the new underwriting classes in such a way that **actual experience** is reproduced in the aggregate.~~

3.5 ~~Requirements for~~ Self-Support Testing—~~The *Model* requires the illustrations for every policy form within the scope of the regulation to be self-supporting according to the assumptions underlying the insurer's **disciplined current scale**.~~ The actuary should perform ~~a~~ self-support testing to demonstrate that ~~new business~~ illustrations are self-supporting as defined in the *Model*.

~~Each illustration reflects underwriting classification, as well as certain factors that are subject to policyholder choice. The underwriting classification includes factors such as age, gender, and risk class. Policyholder choices reflected in the preparation of an illustration include, but are not limited to, the size of policy, premium payment pattern, dividend option, coverage riders, and policy loans. When demonstrating that illustrations for a policy form are self-supporting, as required by the *Model*,~~ When performing a self-support test for a policy form, the actuary may test ~~the~~ underwriting classification factors (such as age, gender, and risk class) and policy~~holder choice~~ factors (such as policy size, premium payment pattern, dividend option, coverage riders, and policy loans) in aggregate if, in the actuary's professional judgment ~~and subject to the limitations of AG 49~~, such combinations would be appropriate. If testing is done in the aggregate, the actuary should select assumptions for the distribution between ~~underwriting classes and policyholder choices~~factors that are based on **actual experience**, if available, recognizing possible shifts in distribution toward any portions of the business that do not meet the self-support test in their own right.

If AG 49 is applicable, the actuary should ensure that any aggregation of index accounts complies with AG 49.~~When performing the self-support test on policy forms with 1) interest credits linked to an external index or indices and 2) more than one available indexed account, the actuary must comply with the limitations on aggregation of indexed accounts imposed by AG 49. AG 49-A imposes no such limitation.~~

3.6 ~~Requirements to Prevent Lapse-Supported Illustrations~~Lapse-Support Testing—When applicable, the actuary should perform lapse-support testing to demonstrate that new business illustrations are not lapse-supported as defined in the *Model*. ~~The *Model* prohibits illustration of **nonguaranteed elements** in policies that are deemed to be lapse-supported and establishes a lapse-support test to demonstrate compliance with this requirement. The lapse-support test requires that the policy form in question be self-supporting under the same assumptions and with the same level of aggregation as described in section 3.5 of this standard, changing only the persistency assumption. The modified persistency rate assumption will use the persistency rates underlying the **disciplined current scale** for the first five policy years and 100% policy persistency thereafter. In~~When performing ~~the~~ a lapse-support test for a policy form, the actuary should assume that benefits that are conditional only upon policy continuation will be provided to all policies in force at the end of year five and surviving to the date of such benefits. For policy forms that provide benefits that are conditional upon certain premium payment patterns, the actuary should decide whether all policies in force ~~to~~ at the end of year five will qualify for such benefits and appropriately reflect this assumption in the lapse-support test.

~~As stated in the *Model*, policy forms that can never develop nonforfeiture values, such as certain term coverages, are exempt from the lapse-support test. The *Model* requires that these policy forms pass the self-support requirement.~~

3.7 In Force Illustrations ~~on Policies In Force One Year or More~~—For illustrations on policies in force for one year or more, the actuary should ensure that the **disciplined current scale** continues to comply with the *Model*. The actuary should update the **experience factors**, revise the assumptions underlying the **disciplined current scale,** and develop a new **disciplined current scale** unless any of the following apply: ~~The **illustration actuary** is required to annually certify that the **disciplined current scale**, for both new business and in-force illustrations, is in conformity with this standard and that the **illustrated scales** used in insurer-authorized illustrations meet the requirements of the *Model*. The *Model* requires that the **illustrated scale** be no more favorable to the policyholder than the lesser of the **currently payable scale** and the **disciplined current scale**. The **disciplined current scale**, for a policy in force one year or more, continues to be in compliance with the *Model* and this standard, if any of the following apply:~~

a. the **currently payable scale** has not been changed since the last certification and the **illustration actuary** determines that experience since the last certification does not warrant changes in the **disciplined current scale** that would make it significantly less favorable to the policyholder;

b. the **currently payable scale** has been changed since the development of the **disciplined current scale** most recently certified only to the extent that changes are reasonably consistent with changes in experience assumptions underlying the **disciplined current scale**; or

c. the **currently payable scale** has been made less favorable to the policyholder since the last certification and the change is more than the change in the current experience would dictate.

~~If none of the conditions in (a), (b), or (c) above is met, the **illustration actuary** should (1) review the **experience factors** underlying the **disciplined current scale** and revise as necessary, and (2) develop a new **disciplined current scale** for this policy form.~~

~~In the context of in-force illustrations f~~For policies receiving distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block), the actuary may include these distributions ~~both~~ in the **disciplined current scale** ~~and in the **illustrated scale**~~, but only to the extent that (1) such distributions are currently being paid to the policyholders by the insurer and (2) the insurer has indicated its intent and ability to continue to do so for the foreseeable future. [Proposed alternate: The actuary should not include distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block) in the **disciplined current scale** unless (1) the distributions are currently being paid to the policyholders by the insurer and (2) the insurer has indicated its intent and ability to continue to do so for the foreseeable future.] ~~The actuary may use such accumulated surplus or prior gains in conducting the tests for self-support and lapse-support.~~

3.8 Changes in Insurer Practice—~~An insurer may introduce certain changes in the way it conducts its business, which may have significant positive or negative effects on future experience. If the action has already occurred, but not enough time has elapsed for it to be reflected in the insurer's **actual experience**, the actuary may nevertheless reflect the action in the assumptions underlying the **disciplined current scale**.~~ The actuary should consider ~~reflecting any changes in~~ updating the assumptions underlying the **disciplined current scale**~~, to the extent known to the actuary,~~ to reflect changes in the insurer's practice such as the following:

a. a change in underwriting standards, such as introducing preferred risk, guaranteed issue, or simplified underwriting;

b. a change in commission levels;

c. a reduction in staff;

d. a change in investment policies, such as changes in hedging activities and changes in asset class allocations; and

e. new or revised reinsurance agreements.

The actuary should not update the assumptions ~~In order to be reflected in the assumptions~~ underlying the **disciplined current scale**~~,~~ if such changes in the insurer's practice ~~should have already been made and not simply be~~ are merely planned for in the future and have not been made. If ~~the action has already occurred~~a change has been made, but not enough time has elapsed for it to be reflected in the insurer's **actual experience**, the actuary may nevertheless reflect the ~~action~~change in the assumptions underlying the **disciplined current scale**.

3.9 Reliance on Others for Data or Other Information, Projections, and Supporting Analysis—The actuary may rely on data or other information, projections, and supporting analysis supplied by others. When practicable, the actuary should review the data or other information, projections, and supporting analysis for reasonableness and consistency. For further guidance, the actuary should refer to ASOP No. 23, *Data Quality*, ASOP No. 41, *Actuarial Communications*, and ASOP No. 56, *Modeling*. The actuary should disclose the extent of any such reliance.

3.10 Reliance on Assumptions or Methods Selected by Another Party—When relying on assumptions or methods selected by another party, the actuary should review the assumptions or methods for reasonableness and consistency. For further guidance, the actuary should refer to ASOP No. 41. The actuary should disclose the extent of any such reliance.

3.11 Reliance on Another Actuary—The actuary may rely on another actuary who has performed actuarial services. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to perform the actuarial service and that the actuarial service was performed in accordance with applicable ASOPs. The actuary should disclose the extent of any such reliance.

3.12 Certification—The **illustration actuary** should provide certifications as required in the *Model*. ~~The *Model* requires the **illustration actuary** to certify that (1) the **disciplined current scale** used in illustrations is in conformity with this standard and (2) that the **illustrated scales** used in insurer-authorized illustrations meet the requirements of the *Model*.~~

~~As required by the *Model*, the **illustration actuary** must should provide a certification for a new policy form before it is illustrated and must should provide an annual certification for all policy forms for which illustrations are used. Additionally, the **illustration actuary** must should file certifications with the board of directors of the insurer and with the commissioner.~~

~~3.12.1 Notice of Inability to Certify—If an **illustration actuary** is unable to certify the **illustrated scale** for any policy form the insurer intends to use, the actuary must should notify the board of directors of the insurer and the commissioner promptly of his or her inability to certify, as required by the *Model*.~~

~~3.12.2 Notice of Error in Certification—~~If an error in a previous certification is discovered, the **illustration actuary** (or successor **illustration actuary**) ~~must~~ should promptly notify the board of directors of the insurer and the commissioner, as required by the *Model*.

The **illustration actuary** should deem the certification to be in error if the certification would not have been issued or would have been materially altered had the error not been made. The **illustration actuary** should not deem the certification to be in error solely because of data that became available subsequent to the certification date, or solely because of information concerning events that occurred subsequent to the certification date.

3.13 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

The documentation related to the requirements for the actuarial certification described in section 3.12 with respect to the ~~construction~~ development of the **disciplined current scale** should include the following:

a. description of, and rationale for, the investment return, mortality, persistency, expense, tax, and other assumptions;

b. description of, and rationale for, any other calculation methods and assumptions used to carry out the tests and demonstrations required by the *Model*; and

c. demonstration that the self-support and lapse-support tests have been met.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, including certifications required by the *Model*, the actuary should refer to ASOP Nos. 23, 25, 41, and 56. ~~In actuarial reports related to certifications, the actuary should include the following~~ In addition, the actuary should disclose the following, whether or not required by applicable law:

a. ~~a statement~~ whether the **disciplined current scale** is in conformity with this standard and whether the **illustrated scales** meet the requirements of the *Model*;

b. ~~a summary of~~ any assumptions or **experience factors** used in the analysis (see section 3.4);

c. ~~a disclosure of~~ any reliance on others for data or other information, projections, and supporting analysis (see section 3.9);

d. ~~a disclosure of~~ any reliance on assumptions or methods selected by another party (see section 3.10); and

e. ~~a disclosure of~~ any reliance on another actuary (see section 3.11).

In addition, when making an annual certification, the **illustration actuary** ~~must~~ should include the additional disclosures required by the *Model* for annual certifications.

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

a. if any material assumption or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

Appendix

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Sales illustrations have been of concern to regulators for over a century, going back at least to the Armstrong Commission (1905-1906). Developments prior to 1995 involving insurance products, illustration technology, and the volatility of financial markets led to heightened concern and to the adoption of the NAIC *Life Insurance Illustrations Model Regulation* (*Model*).

Actuaries have been involved in the process of establishing scales of dividends and other nonguaranteed elements to be illustrated by insurance companies for decades. Until the 1980s, nonguaranteed elements were essentially synonymous with participating dividends, and the sources of scales of illustrated dividends were tables prepared by the respective insurance companies. Since that time, there has been a proliferation of policies with nonguaranteed elements other than dividends. Improving technology has also made possible the development of software that enables insurance agents to produce sales illustrations based on a variety of assumptions, potentially with little or no direct involvement on the part of the insurer. The *Model* assigns major responsibilities regarding compliance to an actuary who is appointed by the insurer.

Illustrations are intended to have two primary uses:

1. to show the buyer the mechanics of the policy, i.e., how a particular financial design or concept works and how policy values or premium payments may change over time; and

2. to show how the policy may fit into the policyholder’s financial plan.

Another common use of illustrations is to compare the cost or performance of different policies, based on the misperception that the sales illustration projects a likely or best estimate of future performance. A sales illustration simply shows the performance of one particular scale of nonguaranteed elements into the future. Actual nonguaranteed elements will almost certainly vary from those illustrated. Different policies will experience different variances from illustrated values.

Current Practices

Since the promulgation of the original standard in 1995, product innovation has continued as pricing structures have been refined, secondary guarantees have expanded, additional underwriting classes have been added, and an increasing variety of policies with index based interest credits have been developed. Illustration actuaries used their own judgement to interpret the *Model* for indexed policies, within the constraints of ASOP No. 24. As indexed policies became more common, regulators were concerned that the amount of index-based interest credit being illustrated was unrealistic and that there were more variations between illustrations from different companies than policy features alone would indicate, which could lead to confusion among consumers. In 2015, this lack of uniform practice in *Model* implementation led regulators to promulgate AG 49 to provide guidance on the interpretation of the *Model* for indexed life insurance policies. AG 49 did not fully capture the illustration implications of innovations in product design that occurred after its introduction. Consumer advocates argued that newer product designs were circumventing AG 49 limits and again illustrations were showing unrealistic returns. In December 2020, AG 49-A was promulgated to address newer product designs and enhance guidance for indexed policies, and this ASOP was updated accordingly.

Varying degrees of flexibility are provided by insurers to their agents in customizing sales illustrations, depending somewhat on whether the producers are brokers or career agents. Generally, the tools that insurers provide allow flexibility with respect to column selection and formats, variations on nonguaranteed elements, and different premium patterns. Along with this flexibility may be the requirement that the buyer also be given a ledger illustration in an insurer-approved format.