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

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APPENDIX

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 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 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 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 an actuarial certification 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 **nonguaranteed elements** payable. 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. Acceptance of or withdrawal from the position should also be in writing.

3.3 Illustrated Scale Requirements—The actuary should ensure that the **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 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** 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 **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 **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 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. Marginally Allocated—Marginally allocated 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 marginally allocated expenses generate aggregate expenses that are greater than those generated by a GRET, the *Model* also permits the use of the marginally allocated expenses.

The actuary should use a single expense factor basis 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, the actuary should use that basis for the entire certification year. When calculating unit expenses, the actuary should select average policy size and volume of sales assumptions that are appropriate for the policy form.

f. Taxes—The actuary should reflect all cash flows arising from applicable taxes. The actuary should recognize 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 taxation 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**.

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 reflect changes in experience 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—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 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*, the actuary may test the underwriting classification and policyholder choice factors 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 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.

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—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 performing the 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 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 Illustrations on Policies In Force One Year or More—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 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. The actuary may use such accumulated surplus or prior gains in conducting the tests for self-support and lapse-support.

3.8 Changes in 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 the assumptions underlying the **disciplined current scale**, to the extent known to the actuary, 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.

In order to be reflected in the assumptions underlying the **disciplined current scale**, such changes should have already been made and not simply be planned for in the future.

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 *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 provide a certification for a new policy form before it is illustrated and must provide an annual certification for all policy forms for which illustrations are used. Additionally, the **illustration actuary** must 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 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 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 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:

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;

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 include the 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.