

Southeastern Actuaries Conference 2010

Update to Illustration Testing Practice Notes

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Overview

- ASOP 24 update
- Practice Notes update



Illustration Model Regulation

- Purpose
 - “Provide rules for life insurance policy illustrations that will protect consumers and foster customer education.”
- Goals
 - “Ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable.”

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ASOP No. 24

- Updated February 2007
 - Updated format
 - Improved flow
 - Information updates

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Significant Issues Discussed

- In Force Illustrations
- Allocating experience to classes and by year
- Clarify the interplay among Illustrated Scales, Disciplined Current Scale, Currently Payable Scale, and what is actually certified
- Closed Blocks of Business
- What could get the actuary in trouble?

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Highlight ASOP No. 24 Changes

- Disciplined Current Scale (DSC)
 - Reflects insurer's non-guaranteed element framework
 - Moved from “recent historical experience” to “actual experience”
 - Investment Return – Added Equity for Indexed Products
 - Expenses: Clarified use of GRET and Direct Expenses
 - Taxes
 - Eliminated “differential earnings rate”
 - Eliminated focus only on self support test

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Highlight ASOP No. 24 Changes

- Illustrations on Policies In Force (One Year or More)
 - Must certify DCS for In force Illustrations
 - Three “safe harbors” for DCS compliance (section 3.7)
 - Allows DCS to be in compliance if CPS was changed due to experience since last certification (not issue)
 - Treatment of closed block surplus in illustrated scale
 - Could use clarifying regulation; remains up to Practice Notes to establish practice
- Changes in Practice
 - Added Impact of Reinsurance
 - Added Changes in Investment Policies

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GRET Issues

- Factors vary each year & as new distribution channels are added
- Changing factors may lead to testing unrelated to actual experience
- Dump-in premiums versus single premium

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What are Practice Notes?

- Current practices that are consistent with regulations and ASOPs.
- Practice Notes (PN) are not interpretations of actuarial standards or regulations, nor codification of generally accepted actuarial practice.

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Why was the PN updated?

- To make the PN easier to use.
- To reflect recent changes in the ASOP.
- To reflect new or evolved practices from the previous note.

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ASOP Sections 2.9 and 3.4

- Added to ASOP: Disciplined Current Scale (DCS) assumptions should be reasonably related to actual experience as reflected in the insurer's Nonguaranteed Element (NGE) framework.
- PN Update – consider pricing, financial and management reporting, allocation and accounting practices when setting DCS assumptions.

(B3, B4, F1, G1, G5, G6, I1)

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ASOP Section 3.4.1a

- Eliminated from ASOP: statement that the earned interest rate factor is fixed at all durations.
- PN Update – It is usually assumed to be fixed, except where there have been changes in practice or if reflecting actual history or less favorable future rates.

(B1, B2)

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ASOP Section 3.4.1a

- Added to ASOP: the investment return factor reflects hedges, policy loans, and other investment items.
- Previous PN – Consider effect of policy loans.
- Updated PN – Company practices determine the relationship between the investment return factor and crediting rates.

(B3)

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ASOP Section 3.5

- Eliminated from ASOP: the actuary should not assume the policy form is subsidized by another policy form or any other source.
- PN Update – Such subsidies generally not used in testing new business policy illustrations because no permission specifically mentioned, as it is for inforce.

(M2)

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ASOP Section 3.5

- Added to ASOP: when aggregating classes/policyholder choices, use judgment.
- Current PN - considerations might include the characteristics of those covered.

(K2)

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ASOP Section 3.6

- Added to ASOP: consider if lapse support test prevents lapse due to insufficient premium.
- Current PN – considerations include impact on tests and likelihood of changes in premium patterns.

(M3, M7)

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ASOP Section 3.4.1 f

- Eliminated from ASOP: statement that mutual company add-on tax could be ignored.
- PN Update: Many actuaries would continue to omit at inforce testing durations where tax was in effect.

(12)

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ASOP Section 3.7

- Eliminated from ASOP: in force tests use actual experience and actual paid NGE up to the present and the DCS thereafter.
- PN Update: the above is one common practice; there may be others in closed block or other situations.

(P2, P9)

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New/Changes in Practices

- Practices involving guaranteed riders.
- Practices involving mortality factors.
- Indexed Life – New Questions.
- Other New PN Questions.

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Practices Involving Guaranteed Riders

- Previous PN - only retest in force riders if base policy needs retesting.
- PN Update – the above applies only if rider experience cannot affect base policy NGE.

(P1)

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Practices Involving Mortality Factors

- Previous PN – trends in improvement not projected beyond the effective date of the DCS.
- PN Update adds – review mortality assumption carefully to be sure that improvements are not included explicitly or implicitly.

(E1)

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Equity Indexed-Linked Products

- Investment Return Assumption.
- Illustrated Crediting Rate.
- Multiple Buckets.

(Section D)

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New PN Questions

- In force Testing – prior distribution of surplus ^(P9)
- In force Testing – DCS does not exist ^(J4)
- Adding new mortality classes ^(E2)
- FIT Loss Carry-forwards ^(I3)
- Closed Blocks ^(M4, P9)
- Preliminary filing for New Products ^(M8)

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Practice Notes Trying to Help



“An Illustration Actuary friend of mine has this problem”

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