Comment #7 – 8/24/16 – 2:43 p.m.

Response to Proposed Pricing ASOP

Here is the response to the proposed pricing ASOP by section:

General comment: This ASOP reads in places as if it refers to deferred annuities, and possibly even only fixed annuities. However, we believe that it should encompass all types of annuities including income and immediate annuities, and also variable annuities.

Section 1.2: Inforce pricing seems to be excluded from the scope of this ASOP. We believe it should be included; these are also pricing exercises that would benefit from this proposed ASOP. However, it is possible that this activity is covered by ASOPs 2 and 15; if so, it would be beneficial, in our opinion, to explicitly indicate that somewhere in this section.

Section 2.3: The definition of pricing seems to encompass the process of setting credited rates for a life and annuity product. This is usually done using a simplified process and should be excluded from the definition of pricing. Perhaps this is not necessary if the comments suggested for Section 1.2 result in appropriate clarification.

Section 3.2.1 seems to elevate IRR above other pricing measures. There are reasons why IRR is not always an appropriate measure, let alone the most appropriate one, depending on the goals of the principal. Although the word "consider" indicates that it is not a requirement to evaluate profitability by the use of IRR, we do not see why it should be the lone measure called out. Provided that there is a list of measures to be considered, in our view IRR should be a listed measure, but not specifically called out as one that "should be considered" as opposed to "may be considered". This may be especially true for mutual and fraternal companies.

Section 3.4.1: The word "consistent" has two slightly different meanings in this section. In respect to a model framework, all assumptions should be set in such a way that there aren't any inconsistencies within the model. In respect to company practices, assumptions should be set according to company practice/policy. Upon the first reading of the section, it seemed to say that individual model assumptions needed to be the same for all company pricing models. (There are of course situations when assumptions should be different between products.) It may be more clear to say "The actuary should use assumptions that are internally consistent within the model framework and *follow* company practices."

Section 3.4.3: There is no reference to cell mix within a product line. Usually pricing is done both on the cell level and in an aggregate manner. As this is one of the important assumptions for product profitability in aggregate, it should, in our opinion, be explicitly called out, especially since the profitability at the cell level will not be uniform (more so for life insurance than annuities), and for a competitive product sales may tend to congregate in cells with lower profitability.

Section 3.4.3b: the words “where appropriate” should be added to the language; for example, for annuity products classification is not usually performed.

Section 3.4.4 seems to suggest that Market Consistent Embedded Value be calculated whenever possible. Some companies (Mutual and Fraternal companies in particular) have a stated philosophy to not utilize MCEV. Additionally, it could be a significant burden on smaller insurance companies to simply determine if benefits are measurable under MCEV. Lastly, since MCEV is not necessary to produce quality Life and Annuity Pricing work, it seems like an undue burden to require it. The document would be improved by removing this section.

Section 4.2: There are two bullet points with the letter c.