

Title of Exposure Draft: ASOP 24: NAIC Life Insurance Illustrations Model Regulation

Comment Deadline: July 1, 2024

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:

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| Name of Commentator / Company |
| John Blocher / Liberty Bankers Insurance Group |

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

| Question No. | Commentator Response |
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III. Specific Recommendations:

| Section # (e.g. 3.2.a) | Commentator Recommendation (Please provide recommended wording for any suggested changes) | Commentator Rationale (Support for the recommendation) |
|---------------------------|---|--|
| 1.2 Scope | “When determining a currently payable scale or determining scales for <u>life insurance</u> illustrations not included in the scope of this ASOP, the actuary should refer to ASOP No. 2, <i>Nonguaranteed Elements for Life Insurance and Annuity Products</i> , or ASOP No 15., <i>Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance.</i> ” | It is slightly unclear from the existing wording whether an illustration that is out of scope could somehow pull in annuity products. That is clearly not the intent, however, both ASOPs reference annuity products. Adding “life insurance” where indicated will make this clear. This is of greater importance given the next sentence where this ASOP supersedes other ASOPs. |
| 2.9 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. <u>Each nonguaranteed element must be explicitly defined and shown in the illustration with its effect on policy value.</u> Examples of nonguaranteed elements include <u>benefits of</u> policy dividends, excess interest credits, and index parameters such as cap rates and participation rates, and <u>charges of</u> mortality charges, expense charges, <u>and</u> indeterminate premiums. | In both ASOP 24 and ASOP 2, there is a potential comingling of nonguaranteed benefits and charges without them being required to have explicit and separated definitions. Suggested language around nonguaranteed elements clarifies that each must be defined with its specific effect on policy value. What can happen is an actuary creates an illustration where 50% of interest credits will not add to the policy value, rather will fund a benefit without showing the dollar amount of that 50% of interest credits being forgone. It may then appear that the |

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| | | <p>benefit is “free” because there is no visible cost in the illustration associated with the benefit.</p> <p>For example, the illustration might only show “\$1,200 interest” when it should show both “\$2,400 interest”, and “\$1,200 charge”. This is misleading to prospective or actual policy owners or anyone else reviewing the policy who is trying to understand costs. It is possible for someone to think the policy is underperforming because it doesn’t seem to receive much interest on periodic statements.</p> <p>We cannot have one nonguaranteed element directly funding another nonguaranteed element without it running through the policy value in the illustration or in actual policy administration. No one writing laws or regulations would expect nonguaranteed elements to be comingled in this way. In the example, an illustration should credit 100% of the interest to the policy value in a dollar amount and then explicitly show a charge of 50% of the interest in a dollar amount to fund the benefit, and then the benefit is clearly “not free”.</p> <p>It is desirable to not allow any of the existing annuity comingling of nonguaranteed elements into life insurance illustrations. ASOP 2 might require similar edits to ensure each individual nonguaranteed element is explicitly defined and its effect on policy value is made visible. ASOP 15 appears to be clear enough.</p> |
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IV. General Recommendations (If Any):

| Commentator Recommendation (Identify relevant sections when possible) | Commentator Rationale (Support for the recommendation) |
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V. Signature:

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| Commentator Signature | Date |
| <i>John Blocher, FSA MAAA</i> | May 31, 2024 |