ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 24

NAIC Life Insurance Illustrations Model Regulation

Revised Edition

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

Adopted by the
Actuarial Standards Board
September 2024

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TABLE OF CONTENTS

APPENDIXES

September 2024

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

FROM: Actuarial Standards Board (ASB)

SUBJECT: Actuarial Standard of Practice (ASOP) No. 24

This document contains a revision of ASOP No. 24, now titled *NAIC Life Insurance Illustrations Model Regulation*.

History of the Standard

The National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation* (*Model*) and ASOP No. 24 were developed contemporaneously in the early 1990s, and the *Model* delegated certain authority for development of guidance in determining the disciplined current scale to the ASOP. The ASB adopted ASOP No. 24, *Compliance with the NAIC Life Insurance 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 update and reflect current, appropriate actuarial practices with respect to illustrations prepared in conformity with the *Model*. In 2015, the NAIC released Actuarial Guideline XLIX (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 and to clarify certain guidance.

In 2020, the NAIC released Actuarial Guideline XLIX-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. AG 49-A was subsequently revised in 2023.

In 2021, the ASB decided to revise this ASOP to reflect the changes effected through AG 49-A. The ASOP was also made consistent with the current ASOP style and format.

First Exposure Draft

The first exposure draft was released in July 2021 with a comment deadline of September 30, 2021. Two comment letters were received and considered in making changes that were reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft was released in July 2023 with a comment deadline of September 15, 2023. Six comment letters were received and considered in making changes that were reflected in the third exposure draft.

Third Exposure Draft

The third exposure draft was released in April 2024 with a comment deadline of July 1, 2024. Two comment letters were received and considered. For a summary of issues contained in these comment letters, please see appendix 2.

Notable Changes from the Third Exposure Draft

No notable changes were made from the third exposure draft.

Notable Changes from the Existing ASOP

Notable changes made to the existing ASOP are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency. Section numbers reflect this document.

1. In section 2.2, a new term “applicable actuarial guideline (applicable AG)” was introduced.

2. Section 3.1 was updated to include an applicable AG.

3. Sections on appointment as illustration actuary and illustrated scale requirements were deleted.

4. Section 3.2.1 was revised to explicitly recognize that experience factors may be developed based on a combination of the types of sources specified in this ASOP.

5. Section 3.2.2 was revised and updated to include a reference to the scope of and any limitations imposed by an applicable AG.

6. In section 3.2.3, guidance on hedge costs was added.

7. Section 3.2.4 now references morbidity and policyholder behavior.

8. In section 3.2.6, the language on other expenses was revised.

9. In section 3.2.11, guidance on consistency of experience factors was added.

10. In section 3.3, guidance on hypothetical accounts was added.

11. In section 3.4, the summary of *Model* requirements for the self-support test was replaced by a reference to the *Model*. The references to AG 49 were replaced with a reference to an applicable AG.

12. In section 3.8, the guidance was expanded to cover projections, models, and supporting analysis and to require the actuary to refer to ASOP Nos. 41, *Actuarial Communications*, and 56, *Modeling*.

13. Guidance on reliance was added in sections 3.9 and 3.10.

14. The guidance on certification disclosures was replaced with a reference to disclosures required by applicable law based on the *Model* in new section 4.1.

15. Disclosures were added in section 4 related to guidance in section 3.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure drafts. The ASB would also like to thank Alicia Carter for her contributions to earlier drafts of this ASOP.

The ASB voted in September 2024 to adopt this standard.

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.

ACTUARIAL STANDARD OF PRACTICE NO. 24

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 in support of a certification or representation that life insurance **illustrated scales** are in conformity with the National Association of Insurance Commissioners (NAIC) *Life Insurance Illustrations Model Regulation (Model)* or **applicable actuarial guidelines** (**applicable AGs)**.

1.2 Scope—This standard applies to actuaries when performing actuarial services in support of a certification or representation that life insurance **illustrated scales** are in conformity with the *Model* or **applicable AGs**. Such a certification or representation may be made in an **illustration actuary's** certification pursuant to applicable law (statutes, regulations, and other legally binding authority) based on the *Model* or may be made in the absence of an applicable law based on the *Model*.

This standard does not apply to actuaries when performing actuarial services with respect to the determination of a **currently payable scale**. When determining a **currently payable scale** or determining scales for illustrations not included in the scope of this ASOP, the actuary should refer to ASOP No. 2, *Nonguaranteed Elements for Life Insurance and Annuity Products,* or ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Insurance*.

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

If a conflict exists between this standard and applicable law, the actuary should comply with applicable law. 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.

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 follow 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 December 1, 2024.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. Definitions in sections 2.3, 2.4, 2.7, 2.8, and 2.9 are intended to conform to those in the *Model*. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

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

2.2 Applicable Actuarial Guideline (Applicable AG)—An NAIC actuarial guideline that provides guidance on the application of the *Model*. Such actuarial guidelines may include NAIC Actuarial Guideline XLIX (AG 49) and Actuarial Guideline XLIX-A (AG 49-A).

2.3 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.

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

2.5 Experience Factor—A numerical value or set of numerical values that reasonably represents recent **actual experience** for a policy form. Examples of **experience factors** include rates of mortality, expense, investment income, persistency, and taxes.

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

2.7 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**.

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

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. Examples of **nonguaranteed elements** include policy dividends, excess interest credits, mortality charges, expense charges, indeterminate premiums, and index parameters such as cap rates and participation rates.

2.10 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 Requirements of the Model and Applicable AGs—The *Model* contains detailed instructions, technical requirements, and prohibitions regarding many aspects of life insurance illustrations. The actuary should be familiar with the *Model*, any applicable state law based on the *Model* (including state variations), and any **applicable AG**.

When an illustration falls within the scope of an **applicable AG**, the actuary should take into account the **applicable AG** when determining whether the **illustrated scale** conforms with the *Model*.

3.2 Experience Factors Underlying the Disciplined Current Scale—When setting **experience factors** underlying the **disciplined current scale**, the actuary should use recent **actual experience** that is representative of the policy form and reflective of the insurer's **nonguaranteed element framework**.

As required by the *Model*, the actuary should use **experience factors** that do not include any projected trends of improvements in experience or any assumed improvements in experience beyond the effective date of the **illustrated scale**.

In addition, the actuary should take into account the following when setting **experience factors**.

3.2.1 Sources of Actual Experience—When setting **experience factors** underlying the **disciplined current scale**, the actuary should use one or more of the following sources of **actual experience** (listed in the order of preference):

a. company experience for the **experience factor class**;

b. company experience for similar **experience factor classes**;

c. experience from other companies, including industry experience; and

d. other relevant sources.

To the extent that recent **actual experience** is not credible, representative of a policy form, or reflective of recent product or **nonguaranteed element** changes, the actuary should consider making adjustments to the **actual experience**. When determining the extent to which experience is credible, the actuary should refer to ASOP No. 25, *Credibility Procedures*.

If the actuary uses the Generally Recognized Expense Table (GRET) to set certain expense **experience factors** as discussed in section 3.2.6, the guidance in section 3.2.1 is not applicable for such expense **experience factors**.

3.2.2 Investment Return—When setting investment return **experience factors**, the actuary should

a. use a reasonable method for allocating investment income to policies, such as the portfolio, segmentation, or investment generation method;

b. reflect recent **actual experience**, net of default costs, of the assets supporting the policies; and

c. 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.

The actuary may develop investment return **experience factors** net of investment expenses or, alternatively, may include investment expenses in the expense **experience factors**.

When setting investment return **experience factors** that are dependent on index returns, the actuary should also take into account the characteristics of the underlying index or indices and use a timeframe that reflects business and economic cycles.

When setting investment return **experience factors** for policies within the scope of an **applicable AG**, the actuary should also conform to any limitations imposed by an **applicable AG** for the assumed earned interest rate underlying the **disciplined current scale**.

3.2.3 Hedge Costs—When setting **experience factors** for the cost of hedging policy features that are dependent on index returns, the actuary should take into account the characteristics of the underlying index or indices and the timeframe that is used to determine index parameters under the insurer's **nonguaranteed element framework**.

3.2.4 Mortality, Morbidity, and Policyholder Behavior—When setting mortality, morbidity, and policyholder behavior **experience factors**, the actuary should adjust the recent **actual experience** if necessary to be representative of the policy form. When doing so, the actuary should take into account the insurer's underwriting practices, **experience factor classes**, **nonguaranteed element framework**, and distinctions such as age, gender, duration, marketing method, plan, size of policy, policy provisions, and risk class.

3.2.5 Direct Sales Expenses—When setting direct sales expense **experience factors**, the actuary should take into account 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.

3.2.6 Other Expenses—When setting **experience factors** for expenses other than direct sales expenses, the actuary should use one of the following methods:

a. Fully Allocated—Unit expenses that reflect the recent actual total expenses incurred by the insurer for both in-force and newly issued policies.

b. Marginally Allocated—Unit expenses that reflect the recent actual direct expenses (expenses that can be specifically related to a particular policy form) incurred by the insurer but do not reflect indirect expenses (such as corporate overhead and general advertising).

c. GRET—Unit expenses that are approved for use by the NAIC or by the commissioner and are obtained from an industry expense study based on fully allocated expenses.

If no GRET is approved and available, the actuary should use fully allocated expenses. If a GRET is approved and available, the actuary may use the GRET, fully allocated expenses, or marginally allocated expenses. However, the actuary may use marginally allocated expenses only if they generate aggregate expenses that are greater than those generated by using the GRET.

The actuary should use a single expense **experience factor** 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 expense **experience factor** method has been selected, the actuary should use the same method for the entire certification year.

When calculating unit expenses, the actuary should use average policy size and sales volume assumptions that are appropriate for the policy form. When allocating direct expenses, the actuary should assign those expenses to the groups of policies generating the related costs. When allocating indirect expenses, the actuary should reflect the insurer's method for allocating expenses used in its **nonguaranteed element framework**. In addition, the actuary may spread nonrecurring costs over a reasonable number of years (for example, system development costs over the system's lifetime).

3.2.7 Taxes—When setting tax **experience factors**, the actuary should reflect all cash flows arising from applicable taxes. The actuary should take into account the impact of income taxes by duration. 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 include other categories of taxes, such as premium taxes or employment taxes, separately or include them in the category of other expenses, as outlined in section 3.2.6 above.

The actuary should reflect the insurer's method for allocating taxes used in its **nonguaranteed element framework**.

3.2.8 Changes in Methodology—When an insurer changes its methodology in determining **nonguaranteed elements** (for example, changing from a portfolio rate methodology to a new money rate methodology for determining interest credits, adopting a new experience study methodology, introducing new methods of grouping policies into classes, or utilizing new methods of allocating expenses), the actuary should appropriately modify the **experience factors** underlying the **disciplined current scale** to reflect the new methodology.

3.2.9 Other Lines of Business—If other lines of business are considered investments of the illustrated block of business, the actuary should determine whether cash flows originating in such lines should be reflected in the **disciplined current scale**. When determining 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**.

3.2.10 Changes in Actual Experience—When the actuary determines that changes in recent **actual experience** are significant and ongoing, the actuary should update the **experience factors** underlying the **disciplined current scale**.

If the actuary determines that a significant deterioration in an **experience factor** has occurred and is likely to have continued between the date of the experience study and the effective date of the **illustrated scale**, the actuary should reflect such deterioration in the **experience factors**.

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

3.2.11 Consistency of Experience Factors—Where appropriate, the actuary should use **experience factors** that are reasonably consistent with one another and reflect any interdependencies. For example, the actuary should take into account the relationship between hedge costs and market interest rates and the relationship between policyholder behavior and **nonguaranteed elements**.

3.3 Hypothetical Accounts—When determining a hypothetical, supportable current annual cap for a hypothetical, supportable index account as described in an **applicable AG**, the actuary should confirm that the cap would be supportable in the current economic environment. When doing so, the actuary should use a timeframe to evaluate hedge costs that is consistent with the timeframe that is used to determine actual index parameters under the insurer's **nonguaranteed element framework**.

3.4 Self-Support Testing—The actuary should perform self-support testing to demonstrate that illustrations are self-supporting as defined in the *Model.* When doing so, the actuary should use the **experience factors** underlying the **disciplined current scale**.

When performing a self-support test for a policy form, the actuary may test underwriting classifications (such as age, gender, and risk class) and policyholder choices (such as policy size, premium payment pattern, dividend option, coverage riders, account allocations, and policy loans) in aggregate if, in the actuary's professional judgment, such combinations are appropriate. If testing is done in the aggregate, the actuary should select **experience factors** for the distribution between the underwriting classifications and the distribution between the policyholder choices that are based on recent **actual experience**, if available, recognizing possible shifts in distribution toward any portions of the business that do not meet the self-support test on a stand-alone basis.

When an illustration falls within the scope of an **applicable AG**, the actuary should take into account any limitations on aggregation of indexed accounts imposed by the **applicable AG**.

3.5 Lapse-Support Testing—For illustrations of policies that can develop nonforfeiture values, the actuary should perform lapse-support testing to demonstrate that illustrations are not lapse-supported as defined in the *Model*. When doing so, the actuary should use the same **experience factors** and the same level of aggregation as described in section 3.4, changing only the persistency rate **experience factor** to be 100% after the first five policy years.

When performing 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 policies that provide benefits that are conditional upon certain premium payment patterns, the actuary should evaluate whether all policies in force at the end of year five will qualify for such benefits and appropriately reflect this evaluation in the lapse-support test.

Although illustrations of policy forms that can never develop nonforfeiture values are exempt from the lapse-support testing requirement, the actuary should confirm that the illustrations of such policy forms are self-supporting.

3.6 Illustrations of Policies In Force One Year or More—For illustrations of policies in force one year or more, the actuary should determine whether the **disciplined current scale** continues to be in conformity with the *Model* by (1) testing under sections 3.4 and 3.5, as applicable, or (2) determining that any of the following conditions is met:

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 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 experience would dictate.

If the actuary determines that the **disciplined current scale** is not in conformity with the *Model*, the actuary should (1) review the **experience factors** underlying the **disciplined current scale** and revise as necessary and (2) determine a new **disciplined current scale**.

For policies in force one year or more that are receiving distributions of accumulated surplus or prior gains (including those resulting from the formation of a closed block), the actuary may include such distributions in the **disciplined current 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.

3.7 <u>Actions or Events for Which Experience Has Not Yet Emerged</u>—When an insurer has taken an action or an event has occurred that may have significant positive or negative effects on future experience, but not enough time has elapsed for the effect of the action or event to be reflected in the insurer's **actual experience**, the actuary should consider reflecting the effect of the action or event in the **experience factors** underlying the **disciplined current scale**. Examples of such actions or events include the following:

a. a change in underwriting standards, such as the introduction or elimination of risk classifications, guaranteed issue, simplified underwriting, or accelerated underwriting programs;

b. a change in commission levels;

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

d. the addition, removal, or modification of policy features, such as additional benefit riders or index accounts;

e. a revision of **nonguaranteed elements**, such as cost of insurance charges or index parameters;

f. new or revised reinsurance agreements;

g. a reduction in staff; and

h. an external shock, such as a pandemic.

The actuary should reflect only actions that have already been taken or events that have already occurred.

3.8 Reliance on Others for Data or Other Information, Projections, Models, and Supporting Analysis—The actuary may rely on data or other information, projections, models, and supporting analysis supplied by others. When practicable, the actuary should review the data or other information, projections, models, 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*.

3.9 Reliance on Assumptions or Methods Selected by Another Party—When relying on **experience factors**, assumptions, or methods selected by another party, the actuary should review the **experience factors**, assumptions, or methods for reasonableness and consistency. The actuary should refer to ASOP No. 41 for guidance.

3.10 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.

3.11 Certification—The *Model* requires the **illustration actuary** to certify, for both new business illustrations and in-force illustrations, that (1) the **disciplined current scale** used in illustrations is in conformity with this standard and (2) 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.

3.11.1 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*.

3.11.2 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.

3.12 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 amount, form, and detail 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.

When preparing the documentation related to the certification described in section 3.11, the actuary should include the following:

a. description of, and rationale for, the **experience factors** underlying the **disciplined current scale**;

b. description of, and rationale for, any other methods, models, 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 Certifications—When issuing a certification, the **illustration actuary** must include the disclosures required by applicable law based on the *Model* (see section 3.11).

4.2 Required Disclosures in Actuarial Reports—When issuing an actuarial report, the actuary should refer to ASOP Nos. 23, 25, 41, and 56. In addition, the actuary should disclose the following in such actuarial reports:

a. whether the **disciplined current scale** is in conformity with this standard and whether the **illustrated scales** meet the requirements of the *Model* (see sections 3.4, 3.5, 3.6, and 3.11);

b. any assumptions or **experience factors** used in the analysis, in summary form, and a description of the methods used to set them (see sections 3.2 and 3.3);

c. the methods and models used to carry out the tests required by the *Model*, in summary form, or a description of which conditions in section 3.6 were met (see sections 3.4, 3.5, and 3.6);

d. any material changes in the methods or models from those used to support the prior certification or representation (see sections 3.2, 3.3, 3.4, 3.5, and 3.6);

e. any actions or events reflected in the **experience factors** for which experience has not yet emerged (see section 3.7);

f. any reliance on others for data or other information, projections, models, and supporting analysis (see section 3.8);

g. any reliance on **experience factors**, assumptions, or methods selected by another party (see section 3.9); and

h. any reliance on another actuary (see section 3.10).

4.3 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in an actuarial report in accordance with ASOP No. 41 for any of 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; or

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

4.4 Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix 1

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*) and this ASOP.

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 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 classifications have been added, and an increasing variety of policies with index-based interest credits have been developed. Illustration actuaries used their own judgment to interpret the *Model* for indexed policies, within the constraints of ASOP No. 24.

As indexed policies became more common, regulators became 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 Actuarial Guideline XLIX (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, Actuarial Guideline XLIX-A (AG 49-A) was promulgated to address newer product designs and enhance guidance for indexed policies. This standard was revised accordingly. The ASB notes that while the standard was being revised, the NAIC was discussing possible further guidance for illustrations of indexed policies.

Some illustrations are not subject to an applicable law based upon the *Model* or to AG 49 or AG 49-A. Examples include illustrations for policies in jurisdictions that have not adopted such a law and illustrations for policies that are not within the scope of the *Model* or of the AGs, such as variable life insurance policies offering indexed accounts. Some actuaries certify or represent to boards of directors, customers, agents, or regulators that such illustrations are in accordance with the *Model* or that they conform with one or more of the AGs.

Appendix 2

Comments on the Third Exposure Draft and Responses

The third exposure draft of the proposed revision of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*, was issued in April 2024 with a comment deadline of July 1, 2024. Two comment letters were received, one of which was submitted on behalf of multiple commentators, such as by a firm or committee. For purposes of this appendix, the term "commentator" refers to more than one person associated with a particular comment letter. The ASOP No. 24 Task Force and the Life Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the task force and committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term "reviewers" in appendix 2 includes the ASOP No. 24 Task Force, the ASB Life Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the third exposure draft, which are then cross referenced with those in this final standard.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment Response	One commentator suggested adding "life insurance" before "illustrations" in the sentence referring to ASOP No. 2. The reviewers disagree and made no change.
SECTION 2. DEFINITIONS	
Section 2.2, Applicable Actuarial Guideline (Applicable AG)	
Comment Response	One commentator suggested changing the reference to AG 49 and AG 49-A. The reviewers modified the language.
Section 2.9, Nonguaranteed Element	
Comment Response	One commentator suggested that each nonguaranteed element must be explicitly defined and shown in the illustration with its effect on policy value. The reviewers disagree and made no change.
Proposed new definitions	
Comment Response	One commentator suggested adding a definition for "hypothetical index account." The reviewers note this concept is described in AG 49 and AG 49-A and made no change.

Comment Response	One commentator suggested adding a definition for "hedge costs." The reviewers disagree and made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2.3, Hedge Costs	
Comment Response	One commentator said that the language should clearly state if the intent is to focus on index products only. The reviewers believe the language is clear and made no change.
Comment Response	One commentator suggested moving the guidance that applies only to index products to a new section called "Considerations for Index Products." The reviewers disagree and made no change.
Section 3.3, Hypothetical Accounts	
Comment Response	One commentator suggested adding "Index" to the title. The reviewers believe the language is clear and made no change.