

Memo

To: Actuarial Standards Board

From: Tricia Matson, Partner

Date: May 22, 2019

Subject: RRC comments on ASOP 22

RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss our comments with you.

Overall, we agree with the revisions made to ASOP 22 and believe they will be helpful to actuaries as they prepare actuarial opinions based on asset adequacy analysis regarding life and health liabilities.

We suggest including an explicit requirement for the actuary to consider the impact of mortality improvement in the testing of annuities, and disclose the mortality improvement assumption, for consistency with the standards for pension actuaries. ASOP No. 35 requires that “the actuary should reflect the effect of mortality improvement both before and after the measurement date.” ASOP No. 35 also requires disclosure of the mortality improvement assumption and makes it clear that if appropriate to the measurement, an assumption of zero may be acceptable. This was an excellent enhancement to the pension standards and we see no reason why the same bar should not apply to life & annuity actuarial practice.

Regarding section 3.1.1, we suggest making it clear that regardless of the analysis method chosen, the actuary should still evaluate the adequacy of the assets to support the liabilities. For example, if cash flow testing is not used, the actuary should still consider the quality, maturity, and liquidity profile of the assets to determine if they are appropriate to discharge the liabilities.

Regarding section 3.1.1 item c, we suggest removing reference to variable annuities without guarantees. Although benefit cash flows may not vary materially with economic conditions, the revenue cash flows do, since fees collected are highly dependent on equity market performance. A possible alternative example might be a non-life contingent payout annuity.

Regarding section 3.1.3 item b, we suggest adding a reference to ASOP No. 25, Credibility Procedures.

Regarding section 3.2.5, we suggest adding language that the actuary should evaluate the impact of assumption changes from the prior year, and consider disclosing the impact of changes in assumptions.

Regarding section 3.2.6, we suggest adding that the actuary should consider actual historical practice and documented policies in determining appropriate management actions.