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Helping To Take The “Ill” Out Of Illustration Certifications—Using The Update To The Illustration Practice Notes

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This article is intended to give a high level overview of the recent release of the update to the illustration practice notes. Guidance for illustration testing should be sought from the Illustration Model Regulations and Actuarial Standard of Practice (ASOP) 24, as well as review of the practice notes.

For many product actuaries, year end doesn't always signal good tidings and great joy in their job when they are responsible for the annual illustration certification for their company's products. This process can be painful, and is best performed with great planning and assistance from every possible angle. Assistance for this process is offered in the form of practice notes.

Earlier in 2009, the Illustrations Work Group (IWG) completed a revision to the Illustration Practice Notes (IPN). A presentation on the IPN was given at the 9th annual Product Development Symposium and a webcast that took place in September. The update is available at <http://www.actuary.org/pdf/practnotes/pnasop24Update.pdf>. It is my first priority to encourage any illustration actuary (or anyone interested in the illustration certification process) to read through the IPN, ASOP 24, and the Illustration Model Regulation (at a minimum, it's continuing education which is good for you!). Just so we are clear as to what practice notes are, practice notes are intended to give an idea of various practices that are currently being performed in a specific area. They are not intended to be interpretations of actuarial standards or regulations, nor codifications of generally accepted actuarial practice. Practice notes are intended to help an actuary consider various aspects of a problem in order to get comfortable with a decision they have made or need to make.

The IPN were revised for a few reasons. First, the IPN were categorized by subject matter to assist the reader in finding answers more easily. Second, the IPN were to reflect the changes that were made in ASOP 24 when it was revised in 2007. Finally, the IPN were to reflect new and evolved practices since the previous notes were released.

The extensive 81-page document is intended to be more organized relative to the previous practice notes. The IPN is categorized into 19 areas of interest (labels

sections A-S alphabetically), ranging from experience assumptions and reinsurance to a specific section relating to Equity Indexed-Link products. As a whole, the prior version of the IPN remained intact. Only minor revisions and additions were made due to recent practices and ASOP 24 updates.

Equity Index-Linked Questions

Certainly the arrival of an Equity Index-Linked section is new to the new IPN. This section (D when looking in the IPN) goes through such questions as:

- What investment return assumption are actuaries using in the self/lapse-support tests?
- Are gains from mid-year surrenders included in the investment return assumption when performing the self/lapse-support tests?
- Neither the Model nor the ASOP appear to offer specific guidance in setting the assumed return of an index. What are commonly used approaches to setting it?
- When would it be appropriate to update the illustrated rate?
- If my index-linked product offers multiple index buckets, how many illustrated rates do I need?

Like many other topics, sometimes what you are looking for may be related to sections other than equity index-linked section and advice in that section may be helpful for consideration.

In-force Illustration Testing

More companies seem to be asking questions about how to handle illustrations on in-force business. The ASOP offers some guidance on what could be considered safe harbors for not having to retest in-force business, but certainly, as in all cases, actuarial judgment should be used. If assumptions have not materialized as expected (i.e., mortality, interest, lapses, etc.), it may be prudent to look at in-force business to assess if the illustrated scale (DCS) is still supportable. The IPN does offer guidance in section P on in-force testing. New questions related to prior distribution of surplus (P9) and products with both guaranteed and nonguaranteed timeframes (J4) have been added to the IPN to assist in in-force testing.

Summary

Of course there is no end-all be-all resource for how certifications should be done for compliance with the Illustration Model Regulation and ASOP 24. The Illustration Practice Notes hopefully provide to the illustration actuary a decent survey of what other companies are thinking about and processes they are using to certify each year. The updates and changes are good

to go through if you haven't done so, and it is a nice review for those familiar with the process or wanting to perhaps get more things to think about as you go through your annual certification.

The IWG tried to encourage questions throughout the process and if there are any additional thoughts about the IPN, please direct them to Dianna Pell at pell@actuary.org. □

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