December 15, 2016

Ms. Susan M. Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merrit 7, PO Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2016-330 – Exposure Draft on Targeted Improvements to the Accounting for Long-Duration Contracts

Dear Ms. Cosper:

The New York Life Insurance Company (“New York Life” or “we”) welcomes the opportunity to provide comments on the Exposure Draft on Targeted Improvements to the Accounting for Long-Duration Contracts (the “Exposure Draft” or the “ED”). We continue to be fully committed to helping the Financial Accounting Standards Board (the “FASB” or the “Board”) achieve the goal of a high quality accounting standard. As you are aware, together with Manulife, Metropolitan Life and Prudential Financial, we submitted to you on December 2, 2016 our comments on the Exposure Draft based on the results of our field testing (the “Field Testing Results”). This comment letter summarizes New York Life’s positions on the proposed targeted improvements and should be read in conjunction with our comments on the Field Testing Results.

Our main concern with respect to the targeted improvements is the proposed accounting for participating insurance contracts. We ask the Board to consider the following suggested updates to the proposed targeted improvements:

- Fundamentally, the liability discount rate for participating contracts should be consistent with the dividend interest crediting rate used in calculating projected policyholder dividends. There are two approaches by which the necessary consistency can be achieved:

A. Setting the discount rates for participating contracts equal to the current and projected market rate underlying the dividend interest crediting rate; or

B. Determining the policyholder dividends included in the present value of future benefits using investment and reinvestment results consistent with the discount rate specified by the accounting guidance (e.g., a rate that would be consistent with the illiquid nature of an insurance liability).
We prefer option B. We also propose additional changes to the calculation of the net premium ratio and the liability interest accretion rate to reflect the interaction between dividends and changes in interest rates. This is discussed in more detail in our response to Question 7.

- We recommend clarifying the scope of projected future cash flows so it is limited to projected future dividends arising from policy cash flows and from the assets directly supporting the participating business. Dividends arising from profits of other businesses would be excluded from the projected future cash flows. Such dividends are akin to stock company distributions to stockholders and should be accrued as declared, similar to the way that stock companies record dividends.

- If the Board is unable to resolve our issues with respect to the discount rate and the scope of policyholder dividends, we recommend that participating contracts be excluded from the targeted improvements until an accounting model that reflects the economics specific to participating contracts is developed.

- If the Board decides to exclude the accounting for participating contracts from the targeted improvements, we would still fully support the simplification of the amortization of deferred acquisition costs, even for participating contracts.

For all contracts, we ask the Board to consider a prospective unlocking of the periodic assumption updates. A full effect of the impact of experience deviations immediately through net income is more appropriate than smoothing the effect of experience deviations over future periods that would occur if the retrospective method is applied.

We are concerned that a “high-quality fixed-income instrument yield”, which has been interpreted as referring to AA rated investments, does not provide an adequate illiquidity premium for insurance contracts. We recommend changing the language describing the discount rate and/or providing application guidance such that the discount rate used for traditional insurance contracts would represent an A yield for USD denominated liabilities.

Sincerely,

Robert M. Gardner
Vice President and Controller
Questions for Respondents

Liability for Future Policy Benefits – Contracts Other than Participating Contracts

**Question 1—Scope:** Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for contracts other than participating contracts? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

We agree with the scope of the proposed targeted improvements for long-duration insurance contracts other than participating contracts; however, we have concerns with certain of the proposals as discussed below.

**Question 2—Cash flow assumption update method and presentation:** Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

We disagree with the retrospective approach and suggest a prospective approach for unlocking the net premium ratio.

The prospective and retrospective methods provide different impacts resulting from experience deviations (i.e. difference between actual and estimated) and from assumption changes. Prospective unlocking provides a full offset of changes in assumptions in the future periods, as long as the net premium ratio remains less than 100%, and provides an immediate impact of experience deviations through net income. Retrospective unlocking provides a partial offset to both assumption changes and experience deviations, again subject to the net premium ratio remaining less than 100%. We think it is more appropriate to fully reflect in net income experience deviations that have already occurred without smoothing the impact into other periods.

In addition, the retrospective approach is complex, difficult to implement, and often produces results that are hard to explain to management and users. The complexity that will be added by using the retrospective method is similar to the complexity and difficulty in the current deferred acquisition costs (“DAC”) amortization method, only now the complexity will apply to one of the largest and most important items of the balance sheet, with consequently magnified impacts on the income statement.

The retrospective approach requires the maintenance of information on terminated contracts as well as those still in force. This requires extensive data tracking and will most likely involve a “cohort” approach, which would require new valuation systems. The cost impact that the retrospective approach will introduce should not be underestimated.

**Question 3—Cash flow assumption update frequency:** Do you agree that cash flow assumptions should be updated on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised? If not, what other approach or approaches do you recommend and why?

We agree with a minor suggested clarification. Given their long term nature, certain assumptions, such as mortality, may not significantly change from year to year and, thus, may
not result in a significant update in the assumptions every year. We suggest a change in the proposed guidance to clarify that the cash flow assumptions should be reviewed each year and “…updated, as applicable…”.

**Question 4—Discount rate assumption:** Do you agree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?

The high-quality fixed-income instrument yield has been interpreted as referring to AA rated investments in other areas of existing US GAAP. We are concerned that an AA rate does not provide an adequate illiquidity premium for non-participating contracts. In our opinion, the illiquidity premium for non-par insurance liabilities is higher than that of an AA rated instrument. As such, we disagree with the use of the high-quality fixed-income instrument yield discount rate and recommend changing the language describing the discount rate and/or providing application guidance such that the discount rate used for traditional insurance contracts would represent an A yield for USD denominated liabilities. **Question 5—Discount rate assumption update method and presentation:** Do you agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income? If not, what other approach or approaches do you recommend and why?

We agree. Reflecting the change in the liability for future policy benefits attributable to interest rate changes in other comprehensive income (“OCI”) will create a better match with the assets measured at fair value through OCI if the discount rate assumption as discussed in Question 4 is addressed as suggested. We believe that users will benefit from this presentation.

**Question 6—Discount rate assumption update frequency:** Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

We agree.

**Liability for Future Policy Benefits—Participating Contracts**

**Question 7—Scope (participating contracts):** Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for participating contracts, including closed block contracts issued by a demutualized insurance entity? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

We disagree unless the exposure draft is modified to address the following concerns we have:

1. The required use of a referenced portfolio of high-quality fixed-income yield to discount the liability

   The liability discount rate should be consistent with the projected policyholder dividend interest crediting rate. The consistency of the two rates is important and appropriate because the discount rate should reflect the characteristics of the liability since investment risks are shared with (passed through to) policyholders, at least for policies that meet the definition in
944-20-15-3b (traditional U.S. participating policies). We think this is consistent with the following principle set out in Concept 7: *Using Cash Flow Information and Present Value in Accounting Measurements* (Paragraph 41b.)

"Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows."

The consistency can be achieved in two ways:

A. Setting the discount rates for participating contracts equal to the current and projected market rate underlying the dividend interest crediting rate; or

B. Determining the policyholder dividends included in the present value of future benefits using investment and reinvestment results consistent with the discount rate specified by the accounting guidance (e.g., a rate that would be consistent with the illiquid nature of an insurance liability).

In the spirit of keeping as few accounting models as possible for insurance contracts, we would prefer Option B above. This option would provide uniformity in the discount rate applied to participating and non-participating insurance contracts.

Regardless of the option chosen, the liability cash flows should be discounted using projected market rates. This will cause liability values for the balance sheet to change nearly in proportion to asset values, if assets and liabilities are well matched, thus limiting the volatility of equity. Although discounting using the portfolio (book) rates has intuitive appeal, it is not a good approach for the balance sheet because the liability will be relatively constant in various economic environments, resulting in volatile equity because asset values can change substantially in the various economic environments.

2. **The required use of an interest accretion rate that is locked-in upon issue of the contract**

There are two amounts that are affected by the discount rate (or rates). One determines the interest charge for the income statement and the other affects OCI. In the following discussion, it is understood that "rate" may represent a yield curve.

The interest accretion rate is the rate used to discount future cash flows to calculate a liability whose change is reported in net income. This rate determines the interest that increases the liability that is reported in net income each period. The amount reported in accumulated OCI represents the difference between the carrying amount of the liability for future policy benefits measured using updated discount rates and the liability measured using locked-in rates at contract inception (interest accretion rate). Using a locked-in interest accretion rate for non-participating contracts provides meaningful income statements results because the change in the market value of the liability is reflected in OCI.

However, locking in the interest accretion rate does not produce meaningful net income for participating contracts because of the interaction between the changes in interest rates and changes in projected dividends. When determining net income, the interest accretion rate and the dividend interest crediting rate used for projecting future cash flows need to be internally consistent. If a current dividend interest crediting rate is used to determine the
projected cash flows, then the interest accretion rate needs to be updated as well. To do otherwise would be conceptually equivalent to valuing a floating-rate bond by discounting the floating-rate cash flows at a locked-in discount rate, misrepresenting the floating rate nature of the contract. This would result in some market interest rate changes being reported in net income rather than OCI.

Therefore for participating contracts, we recommend correcting this mismatch by using a “level-spread” approach. Under a level-spread approach, net income is not based on a single interest accretion rate but rather on a set of interest accretion rates that vary by duration in parallel with projected dividend interest crediting rates at each duration.

3. The net premium ratio is re-computed retrospectively, also with a locked-in discount rate, when the projection of cash flows (which include participating life insurance contract dividends) change

When interest rates change and projected dividends also change, the net premium ratio will be updated. This inappropriately changes the liability balance sheet valuation when there should be no economic impact to the company as the investment risk is passed onto the policyholder. This is a result of an internally inconsistent valuation whereby the change in the amount credited through dividends impacts the net premium ratio but the interrelated change in discount rate does not.

Therefore, when interest rates change, there should be consistent treatment of the resulting impacts with the liability valuation for the following items: (a) the impact of the change in dividend interest crediting rates on projected cash flows and (b) the impact of updating the discount rate. The targeted improvements would unlock the net premium ratio for (a) but not for (b), creating an internal inconsistency within the valuation. Either the changes in cash flows resulting from dividend interest crediting rate changes should be excluded from the change in net premium ratio or the impact of the updated interest accretion rate should be included in the change in net premium ratio.

4. The definition of policyholder dividends

Another change as important as the consistency of the discount rates and dividend interest crediting rates is that the projected dividends reflected in the liability for future policy benefits should be limited to dividends arising from policy cash flow and from the assets directly supporting the participating business. Dividends arising from profits from other businesses should be excluded and instead be accrued as declared, consistent with stockholders dividends.

In line with the above recommendations, we suggest the following edits to the Exposure Draft:

- The definition of Liability for Future Policy Benefits in the Master Glossary should be updated by replacing “expected dividends to policyholders” with “policyholder dividends”

- Paragraph 944-40-30-15A be updated to read, “Projected policyholder dividends assumptions used in estimating the liability for future policy benefits shall be based on estimates of dividends expected to be paid to policyholders arising from policy cash flows
and from assets directly supporting the participating policies, assuming that new investments and reinvestments are made at the discount rates”.

- Paragraph 944-50-25-1 should be modified to read, “For participating insurance contracts other than those long-duration participating life insurance contracts identified in paragraph 944-20-15-3, policyholder dividends payable within one year shall be accrued to the extent that such dividends are not included in the liability for future policy benefits in accordance with paragraph 944-40-30-7.”

Question 8—Cash flow assumption update method and presentation (participating contracts): Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

We disagree. Provided that the Board satisfactorily addresses our concerns on policyholder dividends, we would suggest a prospective approach for unlocking the net premium ratio consistent with our view for non-participating contracts as discussed in our response to Question 2 above.

Question 9—Cash flow assumption update frequency (participating contracts): Do you agree that cash flow assumptions should be updated on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised? If not, what other approach or approaches do you recommend and why?

We disagree with an update on an annual basis and would suggest that the cash flow assumptions for participating contracts driven by the economic conditions should be updated each reporting period (including interim periods) consistent with the discount rate update, provided that the Board satisfactorily addresses our concern on policyholder dividends (i.e., the importance of the discount rate and the dividend interest crediting rate being consistent). This is needed to reflect the impact of the economic environment on dividends as they have secondary impacts on other cash flows (i.e., dividends can be used to increase policy values such as cash values and death benefits).

Non-economic assumptions such as mortality may not significantly change from year to year. As such, we suggest that the proposed guidance clarify that the cash flow assumptions should be reviewed on an annual basis and “...updated, as applicable”.

Question 10—Discount rate assumption (participating contracts): Do you agree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?

We disagree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument. Policyowners of participating policies share in all the risks of the assets that support the block of business, at least for policies that meet the definition in 944-20-15-3b (traditional U.S. participating policies). The excess returns from investing in assets with higher yields and capital gains or losses will be shared with participating policyowners although the timing may not be immediate. To avoid providing misleading information to users, it is
critical that the interest rates used to discount dividends be consistent with the investment results used to estimate those dividends.

As previously mentioned in our response to Question 7, there are two approaches to maintaining the necessary consistency by: a) setting the discount rates for participating contracts equal to the current and projected market rate underlying the dividend interest crediting rate; or b) determining the policyholder dividends included in the present value of future benefits using investment and reinvestment results consistent with the discount rate specified by the accounting guidance (e.g., a rate that would be consistent with the illiquid nature of an insurance liability).

If a discount rate is specified, then approach b) is required and we recommend that the discount rate represent an A yield, for the reasons discussed in the response to Question 4 above.

**Question 11—Discount rate assumption update method and presentation (participating contracts):** Do you agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income? If not, what other approach or approaches do you recommend and why?

We agree provided the proposed model is modified as discussed in Question 7.

**Question 12—Discount rate assumption update frequency (participating contracts):** Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

We agree provided that the Board satisfactorily addresses our concern on policyholder dividends (i.e., the importance of the discount rate and the dividend interest crediting rate being consistent).

**Market Risk Benefits**

**Question 13—Scope:** Do you agree with the scope of the proposed amendments on the accounting for market risk benefits? If not, what types of contracts or contract features should be included in or excluded from the scope and why?

We disagree with the Board’s decision on the scope of the market risk benefits. Guaranteed minimum death benefits (GMDB) should be excluded.

While certain aspects of the GMDB may expose an insurance entity, in the short term, to other-than-nominal capital market risk, the actual benefit payout is highly dependent on the mortality of the insured. The volatility in the short term benefit payout due to the capital market risk may not be representative of the long term nature of the benefits which are highly dependent on mortality.

**Question 14—Measurement:** Do you agree that all market risk benefits should be measured at fair value, with fair value changes attributable to a change in the instrument-specific credit risk recognized in other comprehensive income? If not, what other alternative or alternatives do you recommend and why?

We agree with the Board that market risk benefits (except for guaranteed minimum death benefits, as noted above) should follow the fair value method of accounting with the changes in
instrument-specific credit risk recorded through OCI. This accounting principle would bring higher consistency and comparison between entities for living benefit guarantees. In addition, this would simplify the current operational aspect of determining which method should be used for accounting for these benefits.

Deferred Acquisition Costs

Question 15—Scope: Should the scope of the proposed amendments be expanded to include investment contract acquisition costs currently amortized using the interest method in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs?

We agree that investment contract acquisition costs should be included and accounted for together with DAC. This would be in line with the simplification principle. Additionally, we do not expect significant differences in amortization pattern between the interest method and the method proposed in the exposure draft.

Question 16—Amortization: Do you agree with the proposed amendments that would simplify the amortization of deferred acquisition costs? If not, what other simplified and reasonably estimable amortization approach or approaches do you recommend and why?

We agree that one consistent DAC amortization model for all long-duration contracts would simplify the amortization of deferred acquisition costs and we fully support this goal.

We note that a clarification may be necessary with respect to the description of amount of insurance in force and recommend adding a sentence to paragraph ASC 944-30-35-3A as follows: “Amount of insurance in force reflects death benefits, monthly benefits, maximum daily benefit, or such measures as are appropriate to different types of insurance.”

Question 17—Impairment: Do you agree that deferred acquisition costs should not be subject to impairment testing? If not, what alternative or alternatives do you recommend and why?

While conceptually we believe that an impairment test should exist, we are challenged with constructing a single amortization model that could be applied to DAC across all insurance products and an amortization model that will not be overly complex and prevail over the overall principle of simplifying DAC.

Presentation and Disclosure

Question 18—Proposed requirements: Do you agree that the presentation and disclosure requirements included in the proposed amendments would provide decision-useful information? If not, which presentation and/or disclosure requirement or requirements would you change and why?

We disagree. Although the proposed tabular roll-forwards would provide useful information to users of the financial statements, we are concerned that the supplemental information, as proposed, would add disclosures that would not be in line with the overarching principle that “useful information [should not be] obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics.”
In particular, we disagree with the requirement to disclose ranges and weighted averages of the significant assumptions used in determining insurance liabilities, including market risk benefits. The range of assumptions may be so large as to not provide useful information to the reader of the financial statements. The usefulness of providing the ranges and weighted averages is also minimized as these assumptions are aggregated up to the level of the disclosure requirements. We cannot justify the amount of work and associated costs that will be required (including programming complex model changes, running the model across thousands of scenarios, testing and reviewing the data, and implementing and maintaining control procedures over these new requirements) for a limited usefulness, if any, of disclosing such information.

Additionally, we disagree with the requirement to disclose weighted-average earned rate and the weighted-average crediting rate of the liability for policyholders’ account balances. Disclosing the weighted-average earned and crediting rates could be misleading to the users of the financial statements because of the level of aggregation that the entities would be required to disclose this information. Conversely, this disclosure may reveal pricing strategies and proprietary information for entities that issue a limited number of contracts within this guidance.

**Question 19—Additional requirements:** Are there any additional presentation or disclosure requirements that would provide decision-useful information? If so, please describe them and explain why.

Rather than disclosing ranges of assumptions, a more useful disclosure could be a comparison of actual with expected assumptions which would supplement some of the suggested updates as noted in our responses to Question 18 above.

**Effective Date and Transition**

**Question 20—Implementation date:** The Board is interested in understanding the key drivers affecting the timing of implementation. What are those key drivers, and how do they affect the time it will take to implement the proposed amendments? Should the effective date be the same for both public entities and nonpublic entities?

To adopt the targeted improvements, we expect a minimum of four years is necessary for entities to change, develop, and integrate their operating models and strategic management framework.

**Question 21—Transition methods:** Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?

There are practical constraints that will affect the ability to perform retrospective calculations (including the simplified approach). For example, historic cash flow data may not be available in sufficient detail and may only be available for a limited number of years. Also, actuarial valuation models are developed over time. Consequently, it is often not possible to run existing actuarial valuation models on historic data.

In addition, retrospective transition for market risk benefits has some unique considerations. Retrospective transition for market risk benefits would often be more complex than for traditional contracts issued at the same time because of the need to calibrate and generate stochastic economic scenarios to determine the attributed fee on a market risk benefit. Given the dramatic economic events of the past decade, it would be particularly difficult to calibrate
economic scenarios objectively without the use of hindsight. For example, it would likely be impossible for an actuary calibrating economic scenarios to retrospectively determine an attributed fee for a market risk benefit issued in 2005 to avoid being influenced, at least subconsciously, by the foreknowledge that low-probability events such as the financial crisis and negative interest rates in several currencies have actually occurred. So measuring the attributed fee for in force contracts at transition will generally not be possible without the use of hindsight.

One possible approach for market risk benefits is to use a prospective approach so that the attributed fee is set at transition such that there is no change to the liability, provided the attributed fee is between 0 and 100% of the policy charges.

**Question 22—Transition disclosure:** Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?

We do not believe that the disclosure requirements as proposed will provide decision-useful information. ASC 250-10-50-1(b)(2) requires that an entity determines and discloses the amounts that would have been reported under the accounting guidance prior to the implementation of the new guidance which would result in keeping “parallel” sets of books for all periods presented. This will provide additional costs and complexities with already complex implementation. We suggest that the Board considers making the transition disclosure requirements consistent with ASC 606-10-65-1(e), Revenue Recognition, (updated through ASU 2016-12) that states “An entity need not disclose the effect of the changes on the current period, which otherwise is required by paragraph 250-10-50-1(b)(2)...”.

**Costs and Complexities**

**Question 23—Costs and complexities:** Describe the nature of the incremental costs of adopting the proposed amendments, distinguishing between one-time costs and ongoing costs. Explain which aspects of the proposed amendments are driving those costs and include ideas to make the proposals more cost effective.

**Cost:** The proposed changes are significant and we estimate that implementation will cost $10 million at a minimum.

**DAC:** Once implemented, the new approach for amortizing DAC will reduce ongoing costs for FAS 120 and FAS 97 UL products. These products currently use a retrospective approach, which is very costly to implement and maintain and which produces results that can be difficult to explain to users of the financial statements.

**Reserves:** Implementing the retrospective approach for reflecting experience adjustments to reserves will be difficult to implement, expensive to maintain and can be difficult to explain to users of the financial statements. The retrospective approach requires tracking policies that terminated in the past. There are several ways to implement this:

1. Use at-issue detailed in force (for valuation dates from which necessary records are available) and apply “from issue” assumptions that are updated to reflect historical experience. This can be implemented using high level adjustments but if a company desires to reflect experience at a detailed level, the required table maintenance and controls will be complex. The interactions between adjustments for different types of
terminations (e.g., surrenders and deaths) can be complex, making it harder to determine appropriate adjustment factors.

2. Retrospectively “gross-up” current in force to approximately reflect the changes that have occurred since issue. The required table maintenance functions and controls are complex. As with the previous method, the interactions between adjustments for different types of terminations increase the difficulty of making appropriate adjustments.

3. Use a cohort method to capture historical cash flows and to group detailed projections. Capturing appropriate data from the administrative system(s) requires sophisticated data bases, procedures and controls.

Prospective approaches can be implemented much more simply; there is no need to maintain an ever-increasing volume of historical data. Companies can make better use of existing valuation systems; seriatim methods can be used without the need for adjustment factors and without the need for extensive upgrade for a cohort method.

**Market Risk Benefits:** At transition, it may be impractical to calculate the fair value because of the need to calibrate and generate stochastic economic scenarios to determine the attributed fee on market risk benefits.

**Other Costs:** Annually updating assumptions requires appropriate analysis, implementation, and audit processes and controls.