

Actuarial Opinion and Memorandum Requirements - VM-30

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The NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at jengelha@naic.org by Nov. 3, 2008.

VM-30 ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS

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A. Scope

A.1 General

1. The following provisions contain the requirements for the actuarial opinion of reserves and for supporting actuarial memoranda in accordance with Section 3 of the Standard Valuation Law, and are collectively referred to as AOM requirements.
2. Actuarial opinion requirements are provided in this VM-30 for companies that file the Life, Accident and Health Annual Statement or the Fraternal Annual Statement. Companies that file the Property and Casualty Annual Statement or the Health Annual Statement will follow the actuarial opinion requirements pursuant to the instructions for these annual statements. Such companies are not subject to actuarial opinion requirements in this VM-30 unless the instructions for the Property and Casualty Annual Statement or the instructions for the Health Annual Statement provide for requirements in VM-30.

Drafting Note: It is the intent to allow the annual statement instructions to address all issues relating to the actuarial opinion and memorandum for these two statements (Property and Casualty Annual Statement and the Health Annual Statement), but not preclude the use of requirements as appropriate in VM-30 in the instructions for these two statements.

3. The AOM requirements shall be applied in a manner that allows the appointed actuary to utilize his or her professional judgment in performing the actuarial analysis and developing the actuarial opinion and supporting actuarial memoranda, conforming to relevant actuarial standards of practice. However, a state commissioner has the authority to specify methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for the actuary to render an acceptable opinion relative to the adequacy of reserves and related items.
4. These AOM requirements are applicable to all annual statements filed after the operative date of the Valuation Manual. A statement of actuarial opinion on the adequacy of the reserves and related actuarial items and a supporting actuarial memorandum is required each year.

A.2 Applicability

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1. One opinion applicable to individual company annual statements. Not for holding companies. (not by line, but lines included in the opinion)
2. Applicable to companies as provided in Section A.1.1 and Section A.1.2 with life insurance contracts, accident and health insurance contracts, or deposit-type contracts in force.
3. This falls under definition of prescribed actuarial report

Drafting Note: ASOP 41 has a definition of a prescribed actuarial report.

Definitions

Drafting Note: Definitions will be moved to VM-01. The definitions are being held here temporarily.

1. The term “actuarial opinion” means the opinion of an appointed actuary regarding the adequacy of reserves and related actuarial items.
2. The term “Actuarial Standards Board” means the board established by the American Academy of Actuaries to develop and promulgate actuarial standards of practice.
3. The term “annual statement” means the statutory financial statements a company must file using the blank annually with a state insurance commissioner as required under state insurance law.
4. The term “appointed actuary” means an individual who is appointed or retained to provide the actuarial opinion and supporting memorandum in accordance with the Standard Valuation Law.
5. The term “asset adequacy analysis” means an analysis completed to meet the standards and other requirements of the standard of asset adequacy analysis section referred to in these AOM requirements.
6. The term “commissioner” means the chief insurance regulator of a state, district or territory of the United States.
7. The term “company” means an entity transacting business in the state of filing and with outstanding life insurance contracts, accident and health insurance contracts, or deposit type contracts subject to regulation by the commissioner of insurance in this State.
8. The term “qualified actuary” means an individual who meets the requirements set forth in the Standard Valuation Law.

Drafting Note: Should this be expanded for particular lines or FSA or ASA with commissioner approval?

B. General Requirements for Submission of Statement of a Life Actuarial Opinion

B.1 General

1. The statement of an appointed actuary, entitled “Statement of Actuarial Opinion,” setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with C.1 must be included with an annual statement.
2. An appointed actuary is a Qualified Actuary who:
 - (1) Is appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered;
 - (2) Is a member of the American Academy of Actuaries;

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- (3) Is familiar with the valuation requirements applicable to life and health insurance;
 - (4) Has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:
 - (a) Violated any provision of, or any obligation imposed by, the Insurance Law or other law in the course of his or her dealings as a qualified actuary;
 - (b) Been found guilty of fraudulent or dishonest practices;
 - (c) Demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;
 - (d) Submitted to the commissioner during the past five (5) years, pursuant to this regulation, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this regulation including standards set by the Actuarial Standards Board; or
 - (e) Resigned or been removed as an actuary within the past five (5) years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards; and
 - (5) Has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under Paragraph (4) above.
3. Within five (5) business days of the appointment of an appointed actuary, the company shall notify the domiciliary Commissioner of the name, title (and, in the case of a consulting actuary, the name of the firm) and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements of an Appointed Actuary. Once these notices are furnished, no further notice is required with respect to this person unless the actuary ceases to be appointed or retained or ceases to meet the requirements of an Appointed Actuary
 4. If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The insurer shall also furnish the domiciliary Commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scopes, procedure, or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former actuary's satisfaction and those not resolved to the former actuary's satisfaction. The insurer shall also in writing request such former actuary to furnish a letter addressed to the insurer stating whether the actuary agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he does not agree; and the insurer shall furnish such responsive letter from the former actuary to the domiciliary Commissioner together with its own.

Drafting Note: See health and P&C disclosure requirements and insert them here? ... 5 days, 24 months, etc.

Drafting Note: Consider reporting to board and audit committee and reflect in the minutes.

B.2 Standards for Asset Adequacy Analysis

1. The asset adequacy analysis must conform to the Standards of Practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under these AOM requirements, which standards are to form the basis of the statement of actuarial opinion in accordance with these AOM requirements.

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2. The asset adequacy analysis must be based on methods of analysis as are deemed appropriate for such purposes by the Actuarial Standards Board.

Drafting Note: To the extent that the Actuarial Standards of Practice do not address asset adequacy analysis in the context of PBR reserves requirements, this section may need to be modified to address PBR reserves requirements.

B.3 Liabilities to be Covered

1. The statement of actuarial opinion must apply to all in force business on the annual statement date, whether directly issued or assumed, regardless of when or where issued.
2. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance the requirements set forth in the Valuation Manual, the company shall establish the additional reserve.
3. Additional reserves established under B.3.2 and determined not to be necessary by the appointed actuary in subsequent years may be released. Any amounts released shall be disclosed in the actuarial opinion for the applicable year. The release of such reserves would not be deemed an adoption of a lower standard of valuation.

C. Requirements Specific to Life Actuarial Opinions

C.1 Statement of Actuarial Opinion Based On an Asset Adequacy Analysis

1. The statement of actuarial opinion shall consist of:
 - a. A paragraph identifying the appointed actuary and his or her qualifications (see C.1.3);
 - b. A scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a tabulation delineating the reserves and related actuarial items that have been analyzed for asset adequacy and the method of analysis, (see C.1.4) and identifying the reserves and related actuarial items covered by the opinion that have not been so analyzed;
 - c. A reliance paragraph describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures or assumptions, (e.g., anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios (see C.1.5), supported by a statement of each such expert in the form prescribed by C.1.11; and
 - d. An opinion paragraph expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities (see C.1.8).
 - e. One or more additional paragraphs will be needed in individual company cases as follows:
 - i. If the appointed actuary considers it necessary to state a qualification of his or her opinion;
 - ii. If the appointed actuary must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;
 - iii. If the appointed actuary must disclose whether additional reserves as of the prior opinion date are released as of this opinion date, and the extent of the release;
 - iv. If the appointed actuary chooses to add a paragraph briefly describing the assumptions that form the basis for the actuarial opinion.
2. The language in C.1.3 – C.1.8 is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed

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actuary should use language that clearly expresses his or her professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this section (i.e. C.1).

Drafting Note: Do we want to parallel health blank language here?

3. The opening paragraph should generally indicate the appointed actuary’s relationship to the company and his or her qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should include a statement such as:

“I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by a subcommittee of, the Board of Directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies.”

For a consulting actuary, the opening paragraph should include a statement such as:

“I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by a subcommittee of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies.”

Drafting Note: Should comments previously required by PBR reviewing actuary be made here? Or somewhere else and possibly by someone else?

4. The scope paragraph should include a statement such as:

“I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 20[]. Tabulated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

Statement Item	Asset Adequacy Tested Amounts—Reserves and Liabilities					
	Formula Reserves (1)	Principles-Based Valuation Reserves (2)	Additional Actuarial Reserves (a) (3)	Analysis Method (b)	Other Amount (4)	Total Amount (1)+(2)+(3)+ (4) (5)
Exhibit 5 A Life Insurance						
B Annuities						
C Supplementary Contracts Involving Life Contingencies						
D Accidental Death Benefit						
E Disability—Active						

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Statement Item	Asset Adequacy Tested Amounts—Reserves and Liabilities					
	Formula Reserves (1)	Principles-Based Valuation Reserves (2)	Additional Actuarial Reserves (a) (3)	Analysis Method (b)	Other Amount (4)	Total Amount (1)+(2)+(3)+ (4) (5)
F Disability— Disabled						
G Miscellaneous						
Total (Page 3, Line 1)						
Exhibit 6						
A Active Life Reserve						
B Claim Reserve						
Total (Page 3, Line 2)						
Exhibit 7						
Premium and Other Deposit Funds (Column 6, Line 14)						
Guaranteed Interest Contracts (Column 2, Line 14)						
Supplemental Contracts (Column 4, Line 14)						
Annuities Certain (Column 3, Line 14)						
Dividend Accumulations or Refunds (Column 5, Line 14)						
Total Exhibit 7 (Column 1, Line 14)						
Exhibit 8 Part 1						
1 Life (Page 3, Line 4.1)						
2 Health (Page 3, Line 4.2)						

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Statement Item	Asset Adequacy Tested Amounts—Reserves and Liabilities					
	Formula Reserves (1)	Principles-Based Valuation Reserves (2)	Additional Actuarial Reserves (a) (3)	Analysis Method (b)	Other Amount (4)	Total Amount (1)+(2)+(3)+ (4) (5)
Total Exhibit 8, Part 1						
Separate Accounts (Page 3 of the Annual Statement of the Separate Accounts, Lines 1 and 2,)						
TOTAL RESERVES						

IMR (General Account, Page Line)	
(Separate Accounts, Page Line)	
AVR (Page Line)	
Net Deferred and Uncollected Premium	

Drafting Note: Discuss removing exhibit numbers and use names of exhibits.

Notes:

- (a) The additional actuarial reserves are the reserves established under B.2.2.
- (b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in B.1 of these AOM requirements, by means of symbols that should be defined in footnotes to the table. If more than one method of analysis is used for any single annual statement line or line from the above table, an additional line for each method of analysis shall be provided with the method of analysis identified for each line.
- (c) Allocated amount of Asset Valuation Reserve (AVR).

Drafting Note: The above references are based on the 2006 annual statement and will need to be updated to the extent that the annual statement references are modified in the future.

5. If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as:

“I have relied on [name], [title] for [e.g., “anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios” or “certain critical aspects of the analysis performed in conjunction with forming my opinion”], as certified in the attached statement. I have reviewed the information relied upon for reasonableness.”

A statement of reliance on other experts should be accompanied by a statement by each of the experts in the form prescribed by C.1.11.

Drafting Note: Use audit language from P&C opinion?

6. If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should include a statement such as:

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“My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary. I also reconciled the underlying basic asset and liability records to [exhibits and schedules listed as applicable] of the company’s current annual statement.”

7. If the appointed actuary has not examined the underlying records, but has relied upon data (e.g., listings and summaries of policies in force or asset records) prepared by the company, the reliance paragraph should include a statement such as:

“In forming my opinion on [specify types of reserves], I relied upon data prepared by [name and title of company officer certifying in force records or other data] as certified in the attached statements. I evaluated that data for reasonableness and consistency. I also reconciled that data to [list applicable exhibits and schedules] of the company’s current annual statement. In other respects, my examination included review of the actuarial assumptions and actuarial methods used and tests of the calculations I considered necessary.”

The section shall be accompanied by a statement by each person relied upon in the form prescribed by Section C.1.11.

8. The opinion paragraph should include a statement such as:

“In my opinion the reserves and related actuarial values concerning the statement items identified above:

- (a) Are computed in accordance with presently accepted Actuarial Standards of Practice consistently applied and are fairly stated, in accordance with sound actuarial principles;
- (b) Are based on actuarial assumptions and methods that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;
- (c) Meet the requirements of the Insurance Law and regulation of the state of [state of domicile]; and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

Drafting Note: Should there be a different default? see 12.

- (d) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and
- (e) Include provision for all actuarial reserves and related statement items which ought to be established.

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on the assets, and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company. (At the discretion of the commissioner, this language may be omitted for an opinion filed on behalf of a company doing business only in this state and in no other state.)

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate actuarial standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

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This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion.

or

The following material changes which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: (Describe the change or changes.)

Drafting Note: Choose one of the above two paragraphs, whichever is applicable.

The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow all the assumptions used in the analysis.

Signature of Appointed Actuary

Printed Name of Appointed Actuary

Address of Appointed Actuary

Telephone Number of Appointed Actuary

Email Address of Appointed Actuary

Date"

Drafting Note: Consider the draft health annual statement instructions where appropriate.

9. The adoption for new issues or new claims or other new liabilities of an actuarial assumption that differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this section (i.e. C.1).
10. If the appointed actuary is unable to form an opinion, then he or she shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then he or she shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the "scope" paragraph and precede the "opinion" paragraph.

Drafting Note: Consider the draft health annual statement instructions.

11. If the appointed actuary relies on the certification of others on matters concerning the accuracy or completeness of any data underlying the actuarial opinion, or the appropriateness of any other information used by the appointed actuary in forming the actuarial opinion, the actuarial opinion should so indicate the persons the actuary is relying

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upon and a precise identification of the items subject to reliance. In addition, the persons on whom the appointed actuary relies shall provide a certification that precisely identifies the items on which the person is providing information and a statement as to the accuracy, completeness or reasonableness, as applicable, of the items. This certification shall include the signature, title, company, address and telephone number of the person rendering the certification, as well as the date on which it is signed.

12. If allowed by the commissioner, the opining actuary may use one of the following as an alternative to the requirements of C.1.8.c:

Drafting Note: Identify the default statement? Make it the first statement.

- a. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and the formal written standards and conditions of this state for filing an opinion based on the law of the state of domicile.” If the commissioner chooses to allow this alternative, a formal written list of standards and conditions shall be made available. If a company chooses to use this alternative, the standards and conditions in effect on July 1 of a calendar year shall apply to statements for that calendar year, and they shall remain in effect until they are revised or revoked. If no list is available, this alternative is not available.
- b. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have verified that the company’s request to file an opinion based on the law of the state of domicile has been approved and that any conditions required by the commissioner for approval of that request have been met.” If the commissioner chooses to allow this alternative, a formal written statement of such allowance shall be issued no later than March 31 of the year it is first effective. It shall remain valid until rescinded or modified by the commissioner. The rescission or modifications shall be issued no later than March 31 of the year they are first effective. Subsequent to that statement being issued, if a company chooses to use this alternative, the company shall file a request to do so, along with justification for its use, no later than April 30 of the year of the opinion to be filed. The request shall be deemed approved on October 1 of that year if the commissioner has not denied the request by that date.
- c. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have submitted the required comparison as specified by this state.”
 - i. If the commissioner allows this alternative, a formal written list of products (add to the table in Item (ii) below) for which the required comparison must be provided will be published by the commissioner. If a company chooses to use this alternative, the list in effect on July 1 of a calendar year shall apply to statements for that calendar year, and it shall remain in effect until it is revised or revoked. If no list is available, this alternative is not available.
 - ii. If a company desires to use this alternative, the appointed actuary shall provide a comparison of the gross nationwide reserves held to the gross nationwide reserves that would be held under NAIC codification standards. Gross nationwide reserves are the total reserves calculated for the total company in force business directly sold and assumed, indifferent to the state in which the risk resides, without reduction for reinsurance ceded. The information provided shall be at least:

(1) Product Type	(2) Death Benefit or Account Value	(3) Reserves Held	(4) Codification Reserves	(5) Codification Standard

- iii. The information listed shall include all products identified by either the state of filing or any other states subscribing to this alternative.

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- iv. If there is no codification standard for the type of product or risk in force or if the codification standard does not directly address the type of product or risk in force, the appointed actuary shall provide detailed disclosure of the specific method and assumptions used in determining the reserves held.
 - v. The commissioner shall keep the comparison provided by the company confidential to the same extent and under the same conditions as the actuarial memorandum.
13. Notwithstanding the above, a commissioner may reject an opinion based on the laws and regulations of the state of domicile and require an opinion based on the laws of this state. If a company is unable to provide the opinion within sixty (60) days of the request or such other period of time determined by the commissioner after consultation with the company, the commissioner may contract an independent actuary at the company's expense to prepare and file the opinion.
- C.2 Description of Actuarial Memorandum Including an Asset Adequacy Analysis and Regulatory Asset Adequacy Issues Summary

Drafting Note: Consider dates and timing in the draft health annual statement instructions

- 1. The appointed actuary shall prepare a memorandum to the company describing the analysis done in support of his or her opinion regarding the reserves. The memorandum shall be made available for examination by a commissioner upon request but shall be returned to the company after such examination and shall not be considered a record of the insurance department or subject to automatic filing with a commissioner.
- 2. In preparing the memorandum, the appointed actuary may rely on, and include as a part of his or her own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of B.1.2, with respect to the areas covered in such memoranda, and so state in their memoranda. The appointed actuary shall attach the PBR review actuary opinion to the memorandum and report, and shall attach each PBR report as required in the VM-31 to the memorandum or incorporate each PBR report as required in VM-31 into the memorandum.

Drafting Note: Review this in light of removal of reviewing actuary requirements.

- 3. Any actuary engaged by the Commissioner under [insert reference to Section 3 of state's Standard Valuation Law] shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the actuary shall be retained by the commissioner; provided, however, that any information provided by the company to the actuary and included in the work papers shall be considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to the statute governing these AOM requirements. The actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to these AOM requirements for any one of the current year or the preceding three (3) years.
- 4. The appointed actuary shall prepare a regulatory asset adequacy issues summary, the contents of which are specified in C.2.10. The regulatory asset adequacy issues summary will be submitted no later than April 1 of the year following the year for which a statement of actuarial opinion based on asset adequacy is required. A commissioner shall keep the regulatory asset adequacy issues summary confidential to the same extent and under the same conditions as the actuarial memorandum.
- 5. When an actuarial opinion is provided, the memorandum shall demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in B.2 and any additional standards specified in these AOM requirements.
- 6. When an actuarial opinion is provided, it shall specify for reserves:

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- a. Product descriptions including market description, underwriting and other aspects of a risk profile and the specific risks the appointed actuary deems significant;
 - b. Source of liability in force;
 - c. Reserve method and basis;
 - d. Investment reserves;
 - e. Reinsurance arrangements;
 - f. Identification of any explicit or implied guarantees made by the general account in support of benefits provided through a separate account or under a separate account policy or contract and the methods used by the appointed actuary to provide for the guarantees in the asset adequacy analysis; and
 - g. Documentation of assumptions used for lapse rates (both base and excess), interest crediting rate strategy, mortality, policyholder dividend strategy, competitor or market interest rate, annuitization rates, commissions and expenses, and morbidity. The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions.
7. When an actuarial opinion is provided, it shall specify for assets:
- a. Portfolio descriptions, including a risk profile disclosing the quality, distribution and types of assets;
 - b. Investment and disinvestment assumptions;
 - c. Source of asset data;
 - d. Asset valuation bases; and
 - e. Documentation of assumptions made for default costs, bond call function, mortgage prepayment function, determining market value for assets sold due to disinvestment strategy, and determining yield on assets acquired through the investment strategy. The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions.
8. When an actuarial opinion is provided, it shall specify for the analysis basis:
- a. Methodology;
 - b. Rationale for inclusion or exclusion of different blocks of business and how pertinent risks were analyzed;
 - c. Rationale for degree of rigor in analyzing different blocks of business (include in the rationale the level of “materiality” that was used in determining how rigorously to analyze different blocks of business);
 - d. Criteria for determining asset adequacy (include in the criteria the precise basis for determining if assets are adequate to cover reserves under “moderately adverse conditions” or other conditions as specified in relevant actuarial standards of practice);
 - e. Whether the impact of federal income taxes was considered and the method of treating reinsurance in the asset adequacy analysis; and
 - f. Description of any significant differences of opinion between the appointed actuary and the PBR review actuary and an estimate of the impact of those differences on the reserves.

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9. When an actuarial opinion is provided it shall contain:
- a. Summary of material changes in methods, procedures, or assumptions from prior year's asset adequacy analysis.
 - b. Summary of results; and
 - c. Conclusions.
10. The regulatory asset adequacy issues summary shall include:
- a. Descriptions of the scenarios tested (including whether those scenarios are stochastic or deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values shall be determined by either extending the projection period until the inforce and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining inforce;
 - b. The extent to which the appointed actuary uses assumptions in the asset adequacy analysis that are materially different than the assumptions used in the previous asset adequacy analysis;
 - c. To the extent that the PBR review actuary's opinion is adverse or qualified, a description of how the appointed actuary addressed the issues identified in the PBR review actuary's opinion and report in the asset adequacy analysis;
 - d. The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion;
 - e. Comments on any interim results that may be of significant concern to the appointed actuary;
 - f. The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested; and
 - g. Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including but not limited to those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis.
11. The regulatory asset adequacy issues summary shall contain the name of the company for which the regulatory asset adequacy issues summary is being supplied and shall be signed and dated by the appointed actuary rendering the actuarial opinion.
12. The memorandum shall include the following statement:
- “Actuarial methods, considerations and analyses used in the preparation of this memorandum conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum.”
13. An appropriate allocation of assets in the amount of the interest maintenance reserve (IMR), whether positive or negative, shall be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the asset valuation reserve; these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

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14. The amount of the assets used for the AVR shall be disclosed in the table of reserves and liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets shall be disclosed in the memorandum.
15. The appointed actuary shall retain on file, for at least seven (7) years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions and the results obtained.

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