

1 Department of Commerce

2

3 Adopted Permanent Rules Relating to Actuarial Opinion and
4 Memorandum

5

6 Rules as Adopted

7

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

8 2711.0020 PURPOSE.

9 The purpose of this chapter is to prescribe:

10 A. guidelines and standards for statements of
11 actuarial opinion which are to be submitted in accordance with
12 Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, and
13 for memoranda in support of these opinions;

14 B. guidelines and standards for statements of
15 actuarial opinion which are to be submitted when a company is
16 exempt from Minnesota Statutes, section 61A.25, subdivision 2b;
17 and

18 C. rules applicable to the appointment of an
19 appointed actuary.

20 2711.0030 APPLICATION AND SCOPE.

21 Subpart 1. Generally. This chapter applies to all life
22 insurance companies and fraternal benefit societies doing
23 business in this state and to all life insurance companies and
24 fraternal benefit societies which are authorized to reinsure
25 life insurance, annuities, or accident and health insurance
26 business in this state. This chapter applies to all annual
27 statements filed with the office of the commissioner after the
28 effective date of this chapter. Except with respect to
29 companies which are exempted pursuant to part 2711.0060, a
30 statement of opinion on the adequacy of the reserves and related
31 actuarial items based on an asset adequacy analysis in
32 accordance with part 2711.0080, and a supporting memorandum in
33 accordance with part 2711.0090, shall be required each year. A
34 company so exempted must file a statement of actuarial opinion
35 pursuant to part 2711.0070.

1 Subp. 2. **Opinions from exempt companies.** Notwithstanding
2 1, the commissioner shall require a company otherwise exempt
3 pursuant to ~~this chapter~~ part 2711.0060 to submit a statement of
4 actuarial opinion and to prepare a supporting memorandum in
5 accordance with parts 2711.0080 and 2711.0090 if, after a
6 financial analysis of the company the commissioner
7 determines ~~whether~~ that the insurer's asset portfolio, when
8 viewed in light of current economic conditions, is not of
9 sufficient value, liquidity, or diversity to ~~assure~~ ensure the
10 company's ability to meet its outstanding obligations as they
11 mature, and that an asset adequacy analysis is necessary with
12 respect to the company.

13 2711.0040 DEFINITIONS.

14 Subpart 1. **Scope.** For the purposes of this chapter, the
15 terms in this part have the meanings given them.

16 Subp. 2. **Actuarial Standards Board.** "Actuarial Standards
17 Board" is the board established by the American Academy of
18 Actuaries to develop and promulgate standards of actuarial
19 practice.

20 Subp. 3. **Annual statement.** "Annual statement" means that
21 statement required by Minnesota Statutes, section 60A.13, to be
22 filed by the company with the office of the commissioner
23 annually.

24 Subp. 4. **Appointed actuary.** "Appointed actuary" means an
25 individual who is appointed or retained in accordance with part
26 2711.0050, subpart 3, to provide the actuarial opinion and
27 supporting memorandum as required by Minnesota Statutes, section
28 61A.25, subdivisions 2a and 2b.

29 Subp. 5. **Asset adequacy analysis.** "Asset adequacy
30 analysis" means an analysis that meets the standards and other
31 requirements in part 2711.0050, subpart 4. It may take many
32 forms, including, but not limited to, cash flow testing,
33 sensitivity testing, or applications of risk theory.

34 Subp. 6. **Commissioner.** "Commissioner" means the
35 commissioner of commerce.

1 Subp. 7. Company. "Company" means a life insurance
2 company, fraternal benefit society, or reinsurer subject to this
3 chapter.

4 Subp. 8. NAIC. "NAIC" means the National Association of
5 Insurance Commissioners.

6 Subp. 9. Noninvestment grade bonds. "Noninvestment grade
7 bonds" are those designated as class 3, 4, 5, or 6 by the NAIC
8 Securities Valuation Office.

9 Subp. 10. Qualified actuary. "Qualified actuary" means an
10 individual who meets the requirements in part 2711.0050, subpart
11 2.

12 2711.0050 GENERAL REQUIREMENTS.

13 Subpart 1. Submission of statement of actuarial opinion.

14 A. There is to be included on or attached to page 1
15 of the annual statement for each year the statement of an
16 appointed actuary, entitled "Statement of Actuarial Opinion,"
17 setting forth an opinion relating to reserves and related
18 actuarial items held in support of policies and contracts, in
19 accordance with part 2711.0080. A company exempted pursuant to
20 part 2711.0060 from submitting a statement of actuarial opinion
21 in accordance with part 2711.0080 shall include on or attach to
22 page 1 of the annual statement a statement of actuarial opinion
23 rendered by an appointed actuary in accordance with part
24 2711.0070.

25 B. If in the previous year a company provided a
26 statement of actuarial opinion in accordance with part
27 2711.0070, and in the current year fails the exemption criteria
28 of part 2711.0060, subpart 3, item A, B, or E, to again provide
29 an actuarial opinion in accordance with part 2711.0070, the
30 statement of actuarial opinion in accordance with part 2711.0080
31 shall not be required until August 1 following the date of the
32 annual statement. In this instance, the company shall provide a
33 statement of actuarial opinion in accordance with part 2711.0070
34 with appropriate qualification noting the intent to subsequently
35 provide a statement of actuarial opinion in accordance with part

1 2711.0080.

2 C. In the case of a statement of actuarial opinion
3 required to be submitted by a foreign or alien company, the
4 commissioner may accept the statement of actuarial opinion filed
5 by the company with the insurance supervisory regulator of
6 another state if the commissioner determines that the opinion
7 reasonably meets the requirements applicable to a company
8 domiciled in this state.

9 Subp. 2. Qualified actuary. A "qualified actuary" is an
10 individual who:

11 A. is a member in good standing of the American
12 Academy of Actuaries;

13 B. is qualified to sign statements of actuarial
14 opinion for life and health insurance company annual statements
15 in accordance with the American Academy of Actuaries
16 qualification standards for actuaries signing these statements;

17 C. is familiar with the valuation requirements
18 applicable to life and health insurance companies;

19 D. has not been found by the commissioner (or if so
20 found has subsequently been reinstated as a qualified actuary),
21 following appropriate notice and hearing to have:

22 (1) violated any provision of, or any obligation
23 imposed by, the state insurance law or other law in the course
24 of the actuary's dealings as a qualified actuary;

25 (2) been found guilty of fraudulent or dishonest
26 practices;

27 (3) demonstrated incompetency, lack of
28 cooperation, or untrustworthiness to act as a qualified actuary;

29 (4) submitted to the commissioner during the past
30 five years, pursuant to this chapter, an actuarial opinion or
31 memorandum that the commissioner rejected because it did not
32 meet the provisions of this chapter including standards set by
33 the Actuarial Standards Board; or

34 (5) resigned or been removed as an actuary within
35 the past five years as a result of acts or omissions indicated
36 in any adverse report on examination or as a result of failure

1 to adhere to generally acceptable actuarial standards of the
2 American Academy of Actuaries; and

3 E. has not failed to notify the commissioner of any
4 action taken by any commissioner of any other state similar to
5 that under item D.

6 Subp. 3. **Appointed actuary.** An "appointed actuary" is a
7 qualified actuary who is appointed or retained to prepare the
8 statement of actuarial opinion required by this chapter, either
9 directly by or by the authority of the board of directors
10 through an executive officer of the company. The company shall
11 give the commissioner timely written notice of the name, title
12 (and, in the case of a consulting actuary, the name of the
13 firm), and manner of appointment or retention of each person
14 appointed or retained by the company as an appointed actuary and
15 shall state in the notice that the person meets the requirements
16 in subpart 2. Once the notice is furnished, no further notice
17 is required with respect to this person, if the company gives
18 the commissioner timely written notice if the actuary ceases to
19 be appointed or retained as an appointed actuary or to meet the
20 requirements in subpart 2. If a person appointed or retained as
21 an appointed actuary replaces a previously appointed actuary,
22 the notice must so state and give the reasons for replacement.

23 Subp. 4. **Standards for asset adequacy analysis.** The asset
24 analysis required by this chapter must:

25 A. conform to the standards of practice as
26 promulgated from time to time by the Actuarial Standards Board
27 and to any additional standards under this chapter, which
28 standards are to form the basis of the statement of actuarial
29 opinion in accordance with part 2711.0080; and

30 B. be based on methods of analysis considered
31 appropriate for these purposes by the Actuarial Standards Board.

32 Subp. 5. **Liabilities to be covered.**

33 A. Under authority of Minnesota Statutes, section
34 61A.25, subdivisions 2a and 2b, the statement of actuarial
35 opinion applies to all in-force business on the statement date
36 regardless of when or where issued, for example, reserves of

1 exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part
2 1, and equivalent items in the separate account statement or
3 statements.

4 B. If the appointed actuary determines as the result
5 of asset adequacy analysis that a reserve should be held in
6 addition to the aggregate reserve held by the company and
7 calculated in accordance with methods in Minnesota Statutes,
8 section 61A.25, subdivisions 4, 4a, 7, 8, and 9, the company
9 shall establish this additional reserve.

10 C. For years ending before December 31, 1994, the
11 company may, in lieu of establishing the full amount of the
12 additional reserve in the annual statement for that year, set up
13 an additional reserve in an amount not less than the following:

14 (1) December 31, 1992, the additional reserve
15 divided by three; and

16 (2) December 31, 1993, two times the additional
17 reserve divided by three.

18 D. Additional reserves established under item B or C
19 and considered not necessary in subsequent years may be released.
20 Amounts released must be disclosed in the actuarial opinion for
21 the applicable year. The release of these reserves is not
22 considered an adoption of a lower standard of valuation.

23 2711.0060 REQUIRED OPINIONS.

24 Subpart 1. General. In accordance with Minnesota
25 Statutes, section 61A.25, subdivisions 2a and 2b, every company
26 doing business in this state shall annually submit the opinion
27 of an appointed actuary as provided for by this chapter. The
28 type of opinion submitted is determined by this part and must be
29 in accordance with this chapter.

30 Subp. 2. Company categories. For purposes of this
31 chapter, companies shall be classified according to items A to D
32 based on the admitted assets as of the end of the calendar year
33 for which the actuarial opinion is applicable.

34 A. Category A consists of those companies whose
35 admitted assets do not exceed \$20,000,000.

1 B. Category B consists of those companies whose
2 admitted assets exceed \$20,000,000 but do not exceed
3 \$100,000,000.

4 C. Category C consists of those companies whose
5 admitted assets exceed \$100,000,000 but do not exceed
6 \$500,000,000.

7 D. Category D consists of those companies whose
8 admitted assets exceed \$500,000,000.

9 Subp. 3. Exemption eligibility tests.

10 A. A category A company that for any year meets all
11 of the criteria in subitems (1) to (4) is eligible for exemption
12 from submission of a statement of actuarial opinion in
13 accordance with part 2711.0080 for the year in which these
14 criteria are met. The ratios in subitems (1) to (3) must be
15 calculated based on amounts as of the end of the calendar year
16 for which the actuarial opinion is applicable.

17 (1) The ratio of the sum of capital and surplus
18 to the sum of cash and invested assets is at least equal to 0.10.

19 (2) The ratio of the sum of the reserves and
20 liabilities for annuities and deposits to the total admitted
21 assets is less than 0.30.

22 (3) The ratio of the statement value of the
23 noninvestment grade bonds to the sum of capital and surplus is
24 less than 0.50.

25 (4) The examiner team for the NAIC has not
26 designated the company as a first priority company in any of the
27 two calendar years preceding the calendar year for which the
28 actuarial opinion is applicable, or a second priority company in
29 each of the two calendar years preceding the calendar year for
30 which the actuarial opinion is applicable; or the company has
31 resolved such first or second priority status to the
32 satisfaction of the commissioner of the state of domicile and
33 the commissioner has so notified the chair of the NAIC life and
34 health actuarial task force and the NAIC staff and support
35 office.

36 B. A category B company that for any year meets all

1 of the criteria in subitems (1) to (4) is eligible for exemption
2 from submission of a statement of actuarial opinion in
3 accordance with part 2711.0080 for the year in which the
4 criteria are met. The ratios in subitems (1) to (3) must be
5 calculated based on amounts as of the end of the calendar year
6 for which the actuarial opinion is applicable.

7 (1) The ratio of the sum of capital and surplus
8 to the sum of cash and invested assets is at least equal to 0.07.

9 (2) The ratio of the sum of reserves and
10 liabilities for annuities and deposits to the total admitted
11 assets is less than 0.40.

12 (3) The ratio of the statement value of the
13 noninvestment grade bonds to the sum of capital and surplus is
14 less than 0.50.

15 (4) The examiner team for the NAIC has not
16 designated the company as a first priority company in any of the
17 two calendar years preceding the calendar year for which the
18 actuarial opinion is applicable, or a second priority company in
19 each of the two calendar years preceding the calendar year for
20 which the actuarial opinion is applicable; or the company has
21 resolved such first or second priority status to the
22 satisfaction of the commissioner of the state of domicile and
23 the commissioner has so notified the chair of the NAIC life and
24 health actuarial task force and the NAIC staff and support
25 office.

26 C. A category A or B company that meets all of the
27 criteria in item A or B, whichever is applicable, is exempted
28 from submission of a statement of actuarial opinion in
29 accordance with part 2711.0080 unless the commissioner
30 specifically indicates to the company that the exemption is not
31 to be taken.

32 D. A category A or B company that for any year is not
33 exempted under item C shall be required to submit a statement of
34 actuarial opinion in accordance with part 2711.0080 for the year
35 for which it is not exempt.

36 E. A category C company that, after submitting an

1 opinion in accordance with part 2711.0080, meets all of the
2 criteria in subitems (1) to (4) shall not be required, unless
3 required in accordance with item F, to submit a statement of
4 actuarial opinion in accordance with part 2711.0080 more
5 frequently than every third year. A category C company which
6 fails to meet all of the criteria in subitems (1) to (4) for any
7 year shall submit a statement of actuarial opinion in accordance
8 with part 2711.0080 for that year. The ratios in subitems (1)
9 to (3) must be calculated based on amounts as of the end of the
10 calendar year for which the actuarial opinion is applicable.

11 (1) The ratio of the sum of capital and surplus
12 to the sum of cash and invested assets is at least equal to 0.05.

13 (2) The ratio of the sum of the reserves and
14 liabilities for annuities and deposits to the total admitted
15 assets is less than 0.50.

16 (3) The ratio of the statement value of the
17 noninvestment grade bonds to the sum of the capital and surplus
18 is less than 0.50.

19 (4) The examiner team for the NAIC has not
20 designated the company as a first priority company in any of the
21 two calendar years preceding the calendar year for which the
22 actuarial opinion is applicable, or a second priority company in
23 each of the two calendar years preceding the calendar year for
24 which the actuarial opinion is applicable; or the company has
25 resolved such first or second priority status to the
26 satisfaction of the commissioner of the state of domicile and
27 the commissioner has so notified the chair of the NAIC life and
28 health actuarial task force and the NAIC staff and support
29 office.

30 F. A company which is not required by this part to
31 submit a statement of actuarial opinion in accordance with part
32 2711.0080 for any year shall submit a statement of actuarial
33 opinion in accordance with part 2711.0070 for that year unless
34 as provided for by part 2711.0030, subpart 2, the commissioner
35 requires a statement of actuarial opinion in accordance with
36 part 2711.0080.

1 Subp. 4. Large companies. A category D company shall
2 submit a statement of actuarial opinion in accordance with part
3 2711.0080 for each year.

4 2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET
5 ADEQUACY ANALYSIS.

6 Subpart 1. General description. The statement of
7 actuarial opinion required by this part consists of a paragraph
8 identifying the appointed actuary and the actuary's
9 qualifications; a regulatory authority paragraph stating that
10 the company is exempt pursuant to this chapter from submitting a
11 statement of actuarial opinion based on an asset adequacy
12 analysis and that the opinion, which is not based on an asset
13 adequacy analysis, is rendered in accordance with part
14 2711.0070; a scope paragraph identifying the subjects on which
15 the opinion is to be expressed and describing the scope of the
16 appointed actuary's work; and an opinion paragraph expressing
17 the appointed actuary's opinion as required by Minnesota
18 Statutes, section 61A.25, subdivision 2a.

19 Subp. 2. Recommended language. The following language
20 provided is that which in typical circumstances would be
21 included in a statement of actuarial opinion in accordance with
22 this part. The language may be modified as needed to meet the
23 circumstances of a particular case, but the appointed actuary
24 must use language which clearly expresses the actuary's
25 professional judgment. However, the opinion must retain all
26 pertinent aspects of the language provided in this part.

27 A. The opening paragraph should indicate the
28 appointed actuary's relationship to the company. For a company
29 actuary, the opening paragraph of the actuarial opinion should
30 read as follows:

31 "I, [name of actuary], am [title] of [name of company]
32 and a member of the American Academy of Actuaries. I
33 was appointed by, or by the authority of, the board of
34 directors of said insurer to render this opinion as
35 stated in the letter to the commissioner dated [insert

1 date]. I meet the academy qualification standards for
2 rendering the opinion and am familiar with the
3 valuation requirements applicable to life and health
4 companies."

5 For a consulting actuary, the opening paragraph of the
6 actuarial opinion should contain a statement such as:

7 "I, [name and title of actuary], a member of the
8 American Academy of Actuaries, am associated with the
9 firm of [insert name of consulting firm]. I have been
10 appointed by, or by the authority of, the board of
11 directors of [name of company] to render this opinion
12 as stated in the letter to the commissioner dated
13 [insert date]. I meet the academy qualification
14 standards for rendering the opinion and am familiar
15 with the valuation requirements applicable to life and
16 health insurance companies."

17 B. The regulatory authority paragraph should include
18 a statement such as the following: "This company is exempt
19 pursuant to Minnesota Rules, part 2711.0060, of the Minnesota
20 Department of Commerce from submitting a statement of actuarial
21 opinion based on an asset adequacy analysis. This opinion,
22 which is not based on an asset adequacy analysis, is rendered in
23 accordance with Minnesota Rules, part 2711.0070."

24 C. The scope paragraph should contain a sentence such
25 as the following: "I have examined the actuarial assumptions
26 and actuarial methods used in determining reserves and related
27 actuarial items listed below, as shown in the annual statement
28 of the company, as prepared for filing with state regulatory
29 officials, as of December 31, 19..."

30 The paragraph should list items and amounts with respect to
31 which the appointed actuary is expressing an opinion. The list
32 should include but not be necessarily limited to:

33 (1) aggregate reserve and deposit funds for
34 policies and contracts included in exhibit 8;

35 (2) aggregate reserve and deposit funds for
36 policies and contracts included in exhibit 9;

1 (3) deposit funds, premiums, dividend and coupon
2 accumulations, and supplementary contracts not involving life
3 contingencies included in exhibit 10; and

4 (4) policy and contract claims--liability end of
5 current year included in exhibit 11, part 1.

6 D. If the appointed actuary has examined the
7 underlying records, the scope paragraph should also include the
8 following:

9 "My examination included such review of the actuarial
10 assumptions and actuarial methods and of the
11 underlying basic records and such tests of the
12 actuarial calculations as I considered necessary."

13 E. If the appointed actuary has not examined the
14 underlying records, but has relied upon listings and summaries
15 of policies in force prepared by the company or a third party,
16 the scope paragraph should include a sentence such as one of the
17 following:

18 "I have relied upon listings and summaries of policies
19 and contracts and other liabilities in force prepared
20 by [name and title of company officer certifying
21 in-force records] as certified in the attached
22 statement. (See accompanying affidavit by a company
23 officer.) In other respects my examination included
24 review of the actuarial assumptions and actuarial
25 methods and such tests of the actuarial calculations
26 as I considered necessary."

27 or

28 "I have relied upon [name of accounting firm] for the
29 substantial accuracy of the in-force records inventory
30 and information concerning other liabilities, as
31 certified in the attached statement. In other
32 respects my examination included review of the
33 actuarial assumptions and actuarial methods and such
34 tests of the actuarial calculations as I considered
35 necessary."

36 The statement of the person certifying shall follow the

1 form indicated by item J.

2 F. The opinion paragraph should include the following:

3 "In my opinion the amounts carried in the balance
4 sheet on account of the actuarial items identified
5 above:

6 (1) are computed in accordance with presently accepted
7 actuarial standards consistently applied and are fairly
8 stated in accordance with sound actuarial principles;

9 (2) are based on actuarial assumptions which produce
10 reserves at least as great as those called for in any
11 contract provision as to reserve basis and method, and are
12 in accordance with all other contract provisions;

13 (3) meet the requirements of the insurance law and
14 regulations of the state of [state of domicile] and are at
15 least as great as the minimum aggregate amounts required by
16 the state in which this statement is filed;

17 (4) are computed on the basis of assumptions
18 consistent with those used in computing the corresponding
19 items in the annual statement of the preceding year-end
20 with any exceptions as noted below; and

21 (5) include provision for all actuarial reserves and
22 related statement items which ought to be established.
23 The actuarial methods, considerations, and analyses
24 used in forming my opinion conform to the appropriate
25 standards of practice as promulgated by the Actuarial
26 Standards Board, which standards form the basis of
27 this statement of opinion."

28 G. The concluding paragraph should document the
29 eligibility for the company to provide an opinion as provided by
30 this part. It shall include the following:

31 "This opinion is provided in accordance with Minnesota
32 Rules, part 2711.0070. As such it does not include an
33 opinion regarding the adequacy of reserves and related
34 actuarial items when considered in light of the assets
35 which support them.

36 Eligibility for Minnesota Rules, part 2711.0070, is

1 confirmed as follows:

2 (a) The ratio of the sum of capital and surplus to the
3 sum of cash and invested assets is [insert amount],
4 which equals or exceeds the applicable criterion based
5 on the admitted assets of the company (Minnesota
6 Rules, part 2711.0060, subpart 3).

7 (b) The ratio of the sum of the reserves and
8 liabilities for annuities and deposits to the total
9 admitted assets is [insert amount], which is less than
10 the applicable criteria based on the admitted assets
11 of the company (Minnesota Rules, part 2711.0060,
12 subpart 3).

13 (c) The ratio of the statement value of the
14 noninvestment grade bonds to the sum of capital and
15 surplus is [insert amount], which is less than the
16 applicable criteria of 0.50.

17 (d) To my knowledge, the NAIC examiner team has not
18 designated the company as a first priority company in
19 any of the two calendar years preceding the calendar
20 for which the actuarial opinion is applicable, or a
21 second priority company in each of the two calendar
22 years preceding the calendar year for which the
23 actuarial opinion is applicable; or the company has
24 resolved such first or second priority status to the
25 satisfaction of the commissioner of the state of
26 domicile, and has provided the necessary NAIC
27 notification.

28 (e) To my knowledge there is not a specific request
29 from any commissioner requiring an asset adequacy
30 analysis opinion.

31 _____
32 Signature of Appointed Actuary

33 _____
34 Address of Appointed Actuary

35 _____
36 Telephone Number of Appointed Actuary"

37
38
39
40 H. If there has been any change in the actuarial

1 assumptions from those previously employed, that change should
2 be described in the annual statement or in a paragraph of the
3 statement of actuarial opinion, and the reference in item F,
4 paragraph ~~(d)~~ (4), to consistency should read as follows:

5 "...with the exception of the change described on page
6 [...] of the annual statement (or in the preceding
7 paragraph)."

8 The adoption for new issues or new claims or other new
9 liabilities of an actuarial assumption which differs from a
10 corresponding assumption used for prior new issues or new claims
11 or other new liabilities is not a change in actuarial
12 assumptions within the meaning of this paragraph.

13 I. If the appointed actuary is unable to form an
14 opinion, the actuary shall refuse to issue a statement of
15 actuarial opinion. If the appointed actuary's opinion is
16 adverse or qualified, the actuary shall issue an adverse or
17 qualified actuarial opinion explicitly stating the reasons for
18 the opinion. This statement should follow the scope paragraph
19 and precede the opinion paragraph.

20 J. If the appointed actuary does not express an
21 opinion as to the accuracy and completeness of the listings and
22 summaries of policies in force, there should be attached to the
23 opinion the statement of a company officer or accounting firm
24 who prepared underlying data similar to the following:

25 "I, [name of officer], [title] of [name and address of
26 company or accounting firm], hereby affirm that the
27 listings and summaries of policies and contracts in
28 force as of December 31, 19.., prepared for and
29 submitted to [name of appointed actuary], were
30 prepared under my direction and, to the best of my
31 knowledge and belief, are substantially accurate and
32 complete.

33 _____
34 Signature of the Officer of the Company
35 or Accounting Firm

36 _____
37 _____
38 Address of the Officer of the Company
39 or Accounting Firm

1
2
3 Telephone Number of the Officer of the
4 Company or Accounting Firm
5

6 2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET
7 ADEQUACY ANALYSIS.

8 Subpart 1. General description. The statement of
9 actuarial opinion submitted in accordance with this part shall
10 consist of:

11 A. a paragraph, as required by subpart 2, item A,
12 identifying the appointed actuary and the actuary's
13 qualifications;

14 B. a scope paragraph, as required by subpart 2, item
15 B, identifying the subjects on which an opinion is to be
16 expressed and describing the scope of the appointed actuary's
17 work, including a delineation of the reserves and related
18 actuarial items which have been analyzed for asset adequacy and
19 the method of analysis, and identifying the reserves and related
20 actuarial items covered by the opinion which have not been so
21 analyzed;

22 C. a reliance paragraph, as required by subpart 2,
23 item C, describing those areas, if any, where the appointed
24 actuary has deferred to other experts in developing data,
25 procedures, or assumptions (for example, anticipated cash flows
26 from currently owned assets, including variation in cash flows
27 according to economic scenarios) supported by a statement of
28 each expert in the form prescribed by subpart 5;

29 D. an opinion paragraph, as required by subpart 2,
30 item F, expressing the appointed actuary's opinion with respect
31 to the adequacy of the supporting assets to mature the
32 liabilities; and

33 E. one or more additional paragraphs as needed in
34 individual company cases if the appointed actuary:

35 (1) considers it necessary to state a
36 qualification of the actuary's opinion;

37 (2) must disclose the method of aggregation for
38 reserves of different products or lines of business for asset

1 adequacy analysis;

2 (3) must disclose reliance upon any portion of
3 the assets supporting the Asset Valuation Reserve (AVR),
4 Interest Maintenance Reserve (IMR), or other mandatory or
5 voluntary statement reserves for asset adequacy analysis;

6 (4) must disclose an inconsistency in the method
7 of analysis or basis of asset allocation used at the prior
8 opinion date with that used for this opinion;

9 (5) must disclose whether additional reserves of
10 the prior opinion date are released as of this opinion date, and
11 the extent of the release; or

12 (6) chooses to add a paragraph briefly describing
13 the assumptions which form the basis for the actuarial opinion.

14 Subp. 2. Recommended language. The following paragraphs
15 are to be included in the statement of actuarial opinion in
16 accordance with this part. The language is that which in
17 typical circumstances should be included in a statement of
18 actuarial opinion. The language may be modified as needed to
19 meet the circumstances of a particular case, but the appointed
20 actuary should use language which clearly expresses the
21 actuary's professional judgment. However, in any event the
22 opinion shall retain all pertinent aspects of the language
23 provided in this part.

24 A. The opening paragraph should generally indicate
25 the appointed actuary's relationship to the company and the
26 actuary's qualifications to sign the opinion. For a company
27 actuary, the opening paragraph of the actuarial opinion should
28 read as follows:

29 "I, [name], am [title] of [insurance company name] and
30 a member of the American Academy of Actuaries. I was
31 appointed by, or by the authority of, the board of
32 directors of said insurer to render this opinion as
33 stated in the letter to the commissioner dated [insert
34 date]. I meet the academy qualification standards for
35 rendering the opinion and am familiar with the
36 valuation requirements applicable to life and health

1 insurance companies."

2 For a consulting actuary, the opening paragraph should
3 contain a sentence such as:

4 "I, [name], a member of the American Academy of
5 Actuaries, am associated with the firm of [name of
6 consulting firm]. I have been appointed by, or by the
7 authority of, the board of directors of [name of
8 company] to render this opinion as stated in the
9 letter to the commissioner dated [insert date]. I
10 meet the Academy qualification standards for rendering
11 the opinion and am familiar with the valuation
12 requirements applicable to life and health insurance
13 companies."

14 B. The scope paragraph should include a statement
15 such as the following:

16 "I have examined the actuarial assumptions and
17 actuarial methods used in determining reserves and
18 related actuarial items listed below, as shown in the
19 annual statement of the company, as prepared for
20 filing with state regulatory officials, as of December
21 31, 19... Delineated below are those reserves and
22 related actuarial items which have been subjected to
23 asset adequacy analysis.

24 Reserves and Liabilities

25 Asset Adequacy Tested Amounts

	Formula Reserves	Additional Actuarial Reserves (a)	Analysis Method (b)	Other Amount	Total Amount (1)+(2) +(3)
26					
27					
28					
29					
30					
31					
32					
33	Statement Item (1)	(2)		(3)	(4)
34					
35	Exhibit 8				
36					
37	A Life Insurance				
38					
39	B Annuities				
40					
41	C Supplementary				
42	Contracts				
43	Involving Life				
44	Contingencies				
45					
46	D Accidental Death				
47	Benefit				
48					

1	E	Disability -				
2		Active				
3						
4	F	Disability -				
5		Disabled				
6						
7	G	Miscellaneous				
8		Total (Exhibit 8				
9		Item 1, Page 3)	_____	_____	_____	_____
10						
11		Exhibit 9				
12						
13	A	Active Life				
14		Reserve				
15						
16	B	Claim Reserve				
17		Total (Exhibit 9				
18		Item 2, Page 3)	_____	_____	_____	_____
19						
20		Exhibit 10				
21						
22	1	Premiums and				
23		Other Deposit				
24		Funds				
25						
26	1.1	Policyholder				
27		Premiums (Page 3,				
28		Line 10.1)				
29						
30	1.2	Guaranteed				
31		Interest Contracts				
32		(Page 3, Line 10.2)				
33						
34	1.3	Other Contract				
35		Deposit Funds				
36		(Page 3, Line 10.3)				
37						
38	2	Supplementary				
39		Contracts Not				
40		Involving Life				
41		Contingencies				
42		(Page 3, Line 3)				
43						
44	3	Dividend and				
45		Coupon				
46		Accumulations				
47		(Page 3, Line 5)				
48		Total Exhibit 10	_____	_____	_____	_____
49						
50		Exhibit 11 Part 1				
51						
52	1	Life (Page 3,				
53		Line 4.1)				
54						
55	2	Health (Page 3,				
56		Line 4.2)				
57		Total Exhibit 11,				
58		Part 1	_____	_____	_____	_____
59						
60		Separate Accounts				
61		(Page 3,				
62		Line 27)	_____	_____	_____	_____
63						
64		TOTAL RESERVES	_____	_____	_____	_____
65						
66		IMR (Page _____ Line _____)	_____	_____		
67						
68		AVR (Page _____ Line _____)	_____	_____		(c)
69						
70		Notes:				
71						

1 (a) The additional actuarial reserves are the reserves
2 established under part 2711.0050, subpart 5, item B or C.

3 (b) The appointed actuary should indicate the method of
4 analysis, determined in accordance with the standards for asset
5 adequacy analysis referred to in part 2711.0050, subpart 4, by
6 means of symbols which should be defined in footnotes to the
7 table.

8 (c) Allocated amount."

9 C. If the appointed actuary has relied on other
10 experts to develop certain portions of the analysis, the
11 reliance paragraph should include a statement such as the
12 following:

13 "I have relied on [name], [title] for [e.g.,
14 anticipated cash flows from currently owned assets,
15 including variations in cash flows according to
16 economic scenarios] and, as certified in the attached
17 statement, ..."

18 or

19 "I have relied on personnel as cited in the supporting
20 memorandum for certain critical aspects of the
21 analysis in reference to the accompanying statement."

22 Such a statement of reliance on other experts should be
23 accompanied by a statement by each of such experts of the form
24 prescribed by subpart 5.

25 D. If the appointed actuary has examined the
26 underlying asset and liability records, the reliance paragraph
27 should also include the following:

28 "My examination included such review of the actuarial
29 assumptions and actuarial methods and of the
30 underlying basic asset and liability records and such
31 tests of the actuarial calculations as I considered
32 necessary."

33 E. If the appointed actuary has not examined the
34 underlying records, but has relied upon listings and summaries
35 of policies in force and/or asset records prepared by the
36 company or a third party, the reliance paragraph should include
37 a sentence such as:

38 "I have relied upon listings and summaries [of

1 policies and contracts, of asset records] prepared by
 2 [name and title of company officer certifying in-force
 3 records] as certified in the attached statement. In
 4 other respects my examination included such review of
 5 the actuarial assumptions and actuarial methods and
 6 such tests of the actuarial calculations as I
 7 considered necessary."

8 or

9 "I have relied upon [name of accounting firm] for the
 10 substantial accuracy of the in-force records inventory
 11 and information concerning other liabilities, as
 12 certified in the attached statement. In other
 13 respects my examination included review of the
 14 actuarial assumptions and actuarial methods and tests
 15 of the actuarial calculations as I considered
 16 necessary."

17 Such a section must be accompanied by a statement by each
 18 person relied upon of the form prescribed in subpart 5.

19 F. The opinion paragraph should include the following:

20 "In my opinion the reserves and related actuarial
 21 values concerning the statement items identified above:

22 (1) are computed in accordance with presently accepted
 23 actuarial standards consistently applied and are fairly
 24 stated, in accordance with sound actuarial principles;

25 (2) are based on actuarial assumptions which produce
 26 reserves at least as great as those called for in any
 27 contract provision as to reserve basis and method, and are
 28 in accordance with all other contract provisions;

29 (3) meet the requirements of the insurance law and
 30 regulations of the state of [state of domicile] and are at
 31 least as great as the minimum aggregate amounts required by
 32 the state in which this statement is filed;

33 (4) are computed on the basis of assumptions
 34 consistent with those used in computing the corresponding
 35 items in the annual statement of the preceding year-end
 36 (with any exceptions noted below); and

1 (5) include provision for all actuarial reserves and
2 related statement items which ought to be established.
3 The reserves and related items, when considered in
4 light of the assets held by the company with respect
5 to such reserves and related actuarial items
6 including, but not limited to, the principal
7 repayments and investment earnings from such assets,
8 and the considerations anticipated to be received and
9 retained under such policies and contracts, make
10 adequate provision, according to presently accepted
11 actuarial standards of practice, for the anticipated
12 cash flows required by the contractual obligations and
13 related expenses of the company.

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

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

25 or

26 "The following material change or changes which
27 occurred between the date of the statement for which
28 this opinion is applicable and the date of this
29 opinion should be considered in reviewing this
30 opinion: [Describe the change or changes.]"

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

33 "The impact of unanticipated events subsequent to the
34 date of this opinion is beyond the scope of this
35 opinion. The analysis of asset adequacy portion of
36 this opinion should be viewed recognizing that the

1 company's future experience may not follow all the
2 assumptions used in the analysis.

3
4 Signature of Appointed Actuary

5
6
7 Address of Appointed Actuary

8
9
10 Telephone Number of Appointed Actuary"

11
12 Subp. 3. Assumptions for new issues. The adoption for new
13 issues or new claims or other new liabilities of an actuarial
14 assumption which differs from a corresponding assumption used
15 for prior new issues or new claims or other new liabilities is
16 not a change in actuarial assumptions within the meaning of this
17 part.

18 Subp. 4. Adverse opinions. If the appointed actuary is
19 unable to form an opinion, then the actuary shall refuse to
20 issue a statement of actuarial opinion. If the appointed
21 actuary's opinion is adverse or qualified, then the actuary
22 shall issue an adverse or qualified actuarial opinion explicitly
23 stating the reasons for the opinion. This statement should
24 follow the scope paragraph and precede the opinion paragraph.

25 Subp. 5. Reliance on data furnished by other persons. If
26 the appointed actuary does not express an opinion as to the
27 accuracy and completeness of the listings and summaries of
28 policies in force and/or asset-oriented information, there shall
29 be attached to the opinion the statement of a company officer or
30 accounting firm who prepared the underlying data similar to the
31 following:

32 "I, [name of officer], [title], of [name of company or
33 accounting firm], hereby affirm that the listings and
34 summaries of policies and contracts in force as of
35 December 31, 19.., and other liabilities prepared for
36 and submitted to [name of appointed actuary] were
37 prepared under my direction and, to the best of my
38 knowledge and belief, are substantially accurate and
39 complete.

40
41 Signature of the Officer of the Company

1 or Accounting Firm

2
3
4 Address of the Officer of the Company
5 or Accounting Firm

6
7
8 Telephone Number of the Officer of the
9 Company or Accounting Firm"

10
11 and/or

12 "I, [name of officer], [title], of [name of company,
13 accounting firm, or security analyst], hereby affirm
14 that the listings, summaries, and analyses relating to
15 data prepared for and submitted to [name of appointed
16 actuary], in support of the asset-oriented aspects of
17 the opinion were prepared under my direction and, to
18 the best of my knowledge and belief, are substantially
19 accurate and complete.

20
21 Signature of the Officer of the Company,
22 Accounting Firm, or the Security Analyst

23
24
25 Address of the Officer of the Company,
26 Accounting Firm, or the Security Analyst

27
28
29 Telephone Number of the Officer of the
30 Company, Accounting Firm, or the Security
31 Analyst"

32
33 2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET
34 ADEQUACY ANALYSIS.

35 Subpart 1. General.

36 A. In accordance with Minnesota Statutes, section
37 61A.25, subdivisions 2a and 2b, the appointed actuary shall
38 prepare a memorandum to the company describing the analysis done
39 in support of the actuary's opinion regarding the reserves under
40 a part 2711.0080 opinion. The memorandum shall be made
41 available for examination by the commissioner upon the
42 commissioner's request but shall be returned to the company
43 after the examination and shall not be considered a record of
44 the Department of Commerce or subject to automatic filing with
45 the commissioner.

46 B. In preparing the memorandum, the appointed actuary
47 may rely on, and include as a part of the actuary's own

1 memorandum, memoranda prepared and signed by other actuaries who
2 are qualified within the meaning of part 2711.0050, subpart 2,
3 with respect to the areas covered in the memoranda, and so state
4 in their memoranda.

5 C. If the commissioner requests a memorandum and no
6 such memorandum exists or if the commissioner finds that the
7 analysis described in the memorandum fails to meet the standards
8 of the Actuarial Standards Board or the standards and
9 requirements of this chapter, the commissioner may designate a
10 qualified actuary to review the opinion and prepare a supporting
11 memorandum as is required for review. The reasonable and
12 necessary expense of the independent review shall be paid by the
13 company but the review shall be directed and controlled by the
14 commissioner.

15 D. The reviewing actuary shall have the same status
16 as an examiner for purposes of obtaining data from the company
17 and the work papers and documentation of the reviewing actuary
18 shall be retained by the commissioner. Any information provided
19 by the company to the reviewing actuary and included in the work
20 papers is considered as material provided by the company to the
21 commissioner and shall be kept confidential to the same extent
22 as is prescribed by law with respect to other material provided
23 by the company to the commissioner pursuant to Minnesota
24 Statutes, section 61A.25, subdivision 2a, clause (j). The
25 reviewing actuary shall not be an employee of a consulting firm
26 involved with the preparation of any prior memorandum or opinion
27 for the insurer pursuant to this chapter for any one of the
28 current year or the preceding three years.

29 Subp. 2. Details of the memorandum section documenting
30 asset adequacy analysis. When an actuarial opinion under part
31 2711.0080 is provided, the memorandum must demonstrate that the
32 analysis has been done in accordance with the standards for
33 asset adequacy referred to in part 2711.0050, subpart 4, and any
34 additional standards under this chapter. It must specify:

35 A. for reserves:

36 (1) product descriptions including market

1 description, underwriting and other aspects of a risk profile,
2 and the specific risks the appointed actuary deems significant;

3 (2) source of liability in force;

4 (3) reserve method and basis;

5 (4) investment reserves; and

6 (5) reinsurance arrangements;

7 B. for assets:

8 (1) portfolio descriptions, including a risk
9 profile disclosing the quality, distribution, and types of
10 assets;

11 (2) investment and disinvestment assumptions;

12 (3) source of asset data; and

13 (4) asset valuation bases;

14 C. analysis basis:

15 (1) methodology;

16 (2) rationale for inclusion/exclusion of
17 different blocks of business and how pertinent risks were
18 analyzed;

19 (3) rationale for degree of rigor in analyzing
20 different blocks of business;

21 (4) criteria for determining asset adequacy; and

22 (5) effect of federal income taxes, reinsurance,
23 and other relevant factors;

24 D. summary of results; and

25 E. conclusions.

26 Subp. 3. Conformity to standards of practice. The
27 memorandum must include the following statement:

28 "Actuarial methods, considerations, and analyses used
29 in the preparation of this memorandum conform to the
30 appropriate standards of practice as promulgated by
31 the Actuarial Standards Board, which standards form
32 the basis for this memorandum."

33 2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS.

34 Subpart 1. Aggregation. For the asset adequacy analysis
35 for the statement of actuarial opinion provided in accordance

1 with part 2711.0080, reserves and assets may be aggregated by
2 either of the methods in item A or B.

3 A. Aggregate the reserves and related actuarial
4 items, and the supporting assets, for different products or
5 lines of business before analyzing the adequacy of the combined
6 assets to mature the combined liabilities. The appointed
7 actuary must be satisfied that the assets held in support of the
8 reserves and related actuarial items so aggregated are managed
9 in such a manner that the cash flows from the aggregated assets
10 are available to help mature the liabilities from the blocks of
11 business that have been aggregated.

12 B. Aggregate the results of asset adequacy analysis
13 of one or more products or lines of business, the reserves for
14 which prove through analysis to be redundant, with the results
15 of one or more products or lines of business, the reserves for
16 which prove through analysis to be deficient. The appointed
17 actuary must be satisfied that the asset adequacy results for
18 the various products or lines of business for which the results
19 are so aggregated:

20 (1) are developed using consistent economic
21 scenarios; or

22 (2) are subject to mutually independent risks,
23 for example, the likelihood of events impacting the adequacy of
24 the assets supporting the redundant reserves is completely
25 unrelated to the likelihood of events impacting the adequacy of
26 the assets supporting the deficient reserves.

27 In the event of any aggregation, the actuary must disclose
28 in the actuary's opinion that the reserves were aggregated on
29 the basis of the method in item A or B, whichever is applicable,
30 and describe the aggregation in the supporting memorandum.

31 Subp. 2. Selection of assets for analysis. The appointed
32 actuary shall analyze only those assets held in support of the
33 reserves which are the subject for specific analysis, hereafter
34 called "specified reserves." A particular asset or portion
35 thereof supporting a group of specified reserves cannot support
36 any other group of specified reserves. An asset may be

1 allocated over several groups of specified reserves. The annual
2 statement value of the assets held in support of the reserves
3 shall not exceed the annual statement value of the specified
4 reserves, except as provided in subpart 3. If the method of
5 asset allocation is not consistent from year to year, the extent
6 of its inconsistency should be described in the supporting
7 memorandum.

8 Subp. 3. Use of assets supporting Interest Maintenance
9 Reserve and Asset Valuation Reserve. An appropriate allocation
10 of assets in the amount of the Interest Maintenance Reserve
11 (IMR), whether positive or negative, must be used in any asset
12 adequacy analysis. Analysis of risks regarding asset default
13 may include an appropriate allocation of assets supporting the
14 Asset Valuation Reserve (AVR); these AVR assets may not be
15 applied for any other risks with respect to reserve adequacy.
16 Analysis of these and other risks may include assets supporting
17 other mandatory or voluntary reserves available to the extent
18 not used for risk analysis and reserve support.

19 The amount of the assets used for the AVR must be disclosed
20 in the Table of Reserves and Liabilities of the opinion and in
21 the memorandum. The method used for selecting particular assets
22 or allocated portions of assets must be disclosed in the
23 memorandum.

24 Subp. 4. Required interest scenarios. For the purpose of
25 performing the asset adequacy analysis required by this chapter,
26 the qualified actuary shall follow standards adopted by the
27 Actuarial Standards Board; nevertheless, the appointed actuary
28 must consider in the analysis the effect of at least the
29 following interest rate scenarios:

30 A. level with no deviation;

31 B. uniformly increasing over ten years at a half
32 percent per year and then level;

33 C. uniformly increasing at one percent per year over
34 five years and then uniformly decreasing at one percent per year
35 to the original level at the end of ten years and then level;

36 D. an immediate increase of three percent and then

1 level;

2 E. uniformly decreasing over ten years at a half
3 percent per year and then level;

4 F. uniformly decreasing at one percent per year over
5 five years and then uniformly increasing at one percent per year
6 to the original level at the end of ten years and then level;
7 and

8 G. an immediate decrease of three percent and then
9 level.

10 For these and other scenarios which may be used, projected
11 interest rates for a five-year treasury note need not be reduced
12 beyond the point where such five-year treasury note yield would
13 be at 50 percent of its initial level.

14 The beginning interest rates may be based on interest rates
15 for new investments as of the valuation date similar to recent
16 investments allocated to support the product being tested or be
17 based on an outside index, such as treasury yields, of assets of
18 the appropriate length on a date close to the valuation date.
19 Whatever method is used to determine the beginning yield curve
20 and associated interest rates should be specifically defined.
21 The beginning yield curve and associated interest rates should
22 be consistent for all interest rate scenarios.

23 Subp. 5. Documentation. The appointed actuary shall
24 retain on file, for at least seven years, sufficient
25 documentation so that it will be possible to determine the
26 procedures followed, the analyses performed, the bases for
27 assumptions, and the results obtained.

28

29 EFFECTIVE DATE. This chapter is effective five working days
30 after notice of adoption is published in the State Register and
31 applies to annual statements required to be filed in 1993 and
32 subsequent years.