

1.1 **Department of Commerce**

1.2 **Proposed Permanent Rules Governing Life Insurance; Actuarial Opinion and**  
1.3 **Memorandum**

1.4 **2711.0200 SCOPE.**

1.5 This chapter applies to all life insurance companies and fraternal benefit societies  
1.6 doing business in this state and to all life insurance companies and fraternal benefit  
1.7 societies that are authorized to reinsure life insurance, annuities, or accident and health  
1.8 insurance business in this state. This chapter must be applied in a manner that allows  
1.9 the appointed actuary to use professional judgment in performing the asset analysis and  
1.10 developing the actuarial opinion and supporting memoranda, consistent with relevant  
1.11 actuarial standards of practice. However, the commissioner may specify specific methods  
1.12 of actuarial analysis and actuarial assumptions when, in the commissioner's judgment,  
1.13 these specifications are necessary for an acceptable opinion to be rendered relative to  
1.14 the adequacy of reserves and related items.

1.15 A statement of opinion on the adequacy of the reserves and related actuarial  
1.16 items based on an asset adequacy analysis in accordance with part 2711.0230, and a  
1.17 memorandum in support thereof in accordance with part 2711.0240, shall be required  
1.18 each year.

1.19 **2711.0210 DEFINITIONS.**

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

1.22 Subp. 2. **Actuarial opinion.** "Actuarial opinion" means the opinion of an appointed  
1.23 actuary regarding the adequacy of the reserves and related actuarial items based on  
1.24 an asset adequacy analysis according to part 2711.0230 and with applicable Actuarial  
1.25 Standards of Practice.

2.1 Subp. 3. **Actuarial Standards Board.** "Actuarial Standards Board" means the board  
2.2 established by the American Academy of Actuaries to develop and adopt standards of  
2.3 actuarial practice.

2.4 Subp. 4. **Annual statement.** "Annual statement" means the statement required by  
2.5 Minnesota Statutes, section 60A.13, of the insurance law to be filed by the company  
2.6 with the commissioner annually.

2.7 Subp. 5. **Appointed actuary.** "Appointed actuary" means an individual who is  
2.8 appointed or retained in accordance with part 2711.0220, subpart 3, to provide the  
2.9 actuarial opinion and supporting memorandum as required by Minnesota Statutes, section  
2.10 61A.25, subdivision 2a.

2.11 Subp. 6. **Asset adequacy analysis.** "Asset adequacy analysis" means an analysis  
2.12 that meets the standards and other requirements in part 2711.0220, subpart 4.

2.13 Subp. 7. **Commissioner.** "Commissioner" means the commissioner of commerce.

2.14 Subp. 8. **Company.** "Company" means a life insurance company, fraternal benefit  
2.15 society, or reinsurer subject to the provisions of this chapter.

2.16 Subp. 9. **Qualified actuary.** "Qualified actuary" means an individual who meets the  
2.17 requirements in part 2711.0220, subpart 2.

2.18 **2711.0220 GENERAL REQUIREMENTS.**

2.19 **Subpart 1. Submission of Statement of Actuarial Opinion.**

2.20 A. There is to be included on or attached to page 1 of the annual statement  
2.21 for each year the statement of an appointed actuary, entitled, "Statement of Actuarial  
2.22 Opinion," setting forth an opinion relating to reserves and related actuarial items held in  
2.23 support of policies and contracts, in accordance with part 2711.0230.

2.24 B. Upon written request by the company, the commissioner may grant an  
2.25 extension of the date for submission of the Statement of Actuarial Opinion.

3.1 Subp. 2. **Qualified actuary.** A qualified actuary is an individual who:

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

3.3 B. is qualified to sign statements of actuarial opinion for life and health  
3.4 insurance company annual statements in accordance with the American Academy of  
3.5 Actuaries qualification standards for actuaries signing such statements;

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

3.8 D. has not been found by the commissioner, or if so found has subsequently  
3.9 been reinstated as a qualified actuary, following appropriate notice and hearing, to have:

3.10 (1) violated any provision of, or any obligation imposed by, the insurance  
3.11 law or other law in the course of the individual's dealings as a qualified actuary;

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

3.13 (3) demonstrated the individual's incompetency, lack of cooperation, or  
3.14 untrustworthiness to act as a qualified actuary;

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

3.19 (5) resigned or been removed as an actuary within the past five years as a  
3.20 result of acts or omissions indicated in any adverse report on examination or as a result of  
3.21 failure to adhere to generally acceptable actuarial standards; and

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

4.1 Subp. 3. **Appointed actuary.** An appointed actuary is a qualified actuary who is  
4.2 appointed or retained by the board of directors to prepare the Statement of Actuarial  
4.3 Opinion required by this chapter. The company shall give the commissioner timely written  
4.4 notice of the name and title of each person appointed or retained by the company as an  
4.5 appointed actuary and shall state in the notice that the person meets the requirements in  
4.6 subpart 2. In the case of a consulting actuary, the company shall include the name of the  
4.7 firm in the notice. Once notice is furnished, no further notice is required with respect to  
4.8 this person, provided that the company gives the commissioner timely written notice in  
4.9 the event the actuary ceases to be appointed or retained as an appointed actuary or to  
4.10 meet the requirements in subpart 2. If any person appointed or retained as an appointed  
4.11 actuary replaces a previously appointed actuary, the notice must so state and give the  
4.12 reasons for replacement.

4.13 Subp. 4. **Standards for asset adequacy analysis.** The asset adequacy analysis  
4.14 required by this chapter:

4.15 A. must conform to the Standards of Practice as adopted from time to time by  
4.16 the Actuarial Standards Board and on any additional standards under this chapter, which  
4.17 standards are to form the basis of the Statement of Actuarial Opinion in accordance with  
4.18 this chapter; and

4.19 B. must be based on methods of analysis as are deemed appropriate for such  
4.20 purposes by the Actuarial Standards Board.

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

4.22 A. Under authority of Minnesota Statutes, section 61A.25, subdivision 2a, the  
4.23 Statement of Actuarial Opinion applies to all in force business on the statement date,  
4.24 whether directly issued or assumed, regardless of when or where issued. For example,  
4.25 reserves of Exhibits 5, 6, and 7, and claim liabilities in Exhibit 8, Part 1, and equivalent  
4.26 items in the separate account statement or statements.

5.1 B. If the appointed actuary determines as the result of asset adequacy analysis  
5.2 that a reserve should be held in addition to the aggregate reserve held by the company  
5.3 and calculated in accordance with methods in Minnesota Statutes, section 61A.25, the  
5.4 company shall establish the additional reserve.

5.5 C. Additional reserves established under item B and deemed not necessary  
5.6 in subsequent years may be released. Any amounts released must be disclosed in the  
5.7 actuarial opinion for the applicable year. The release of reserves would not be deemed an  
5.8 adoption of a lower standard of valuation.

5.9 **2711.0230 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET**  
5.10 **ADEQUACY ANALYSIS.**

5.11 Subpart 1. General description. The Statement of Actuarial Opinion submitted  
5.12 in accordance with this part consists of:

5.13 A. a paragraph identifying the appointed actuary and the actuary's qualifications;

5.14 B. a scope paragraph identifying the subjects on which an opinion is to be  
5.15 expressed and describing the scope of the appointed actuary's work, including a tabulation  
5.16 delineating the reserves and related actuarial items that have been analyzed for asset  
5.17 adequacy and the method of analysis, and identifying the reserves and related actuarial  
5.18 items covered by the opinion that have not been so analyzed;

5.19 C. a reliance paragraph describing those areas, if any, where the appointed  
5.20 actuary has deferred to other experts in developing data, procedures or assumptions,  
5.21 for example, anticipated cash flows from currently owned assets, including variation in  
5.22 cash flows according to economic scenarios, supported by a statement of each expert in  
5.23 the form prescribed by subpart 5;

5.24 D. an opinion paragraph expressing the appointed actuary's opinion with respect  
5.25 to the adequacy of the supporting assets to mature the liabilities; and

6.1 E. one or more additional paragraphs as needed in individual company cases  
6.2 as follows:

6.3 (1) if the appointed actuary considers it necessary to state a qualification  
6.4 of the actuary's opinion;

6.5 (2) if the appointed actuary must disclose an inconsistency in the method  
6.6 of analysis or basis of asset allocation used at the prior opinion date with that used for this  
6.7 opinion;

6.8 (3) if the appointed actuary must disclose whether additional reserves as of  
6.9 the prior opinion date are released as of this opinion date, and the extent of the release; or

6.10 (4) if the appointed actuary chooses to add a paragraph briefly describing  
6.11 the assumptions that form the basis for the actuarial opinion.

6.12 Subp. 2. **Recommended language.** Items A to F are included in the Statement  
6.13 of Actuarial Opinion in accordance with this part. Language is that which in typical  
6.14 circumstances should be included in a Statement of Actuarial Opinion. The language may  
6.15 be modified as needed to meet the circumstances of a particular case, but the appointed  
6.16 actuary should use language that clearly expresses professional judgment. However, in  
6.17 any event the opinion must retain all pertinent aspects of the language provided in this part.

6.18 A. The opening paragraph should generally indicate the appointed actuary's  
6.19 relationship to the company and qualifications to sign the opinion. For a company actuary,  
6.20 the opening paragraph of the actuarial opinion should include a statement such as:

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

7.1 For a consulting actuary, the opening paragraph should include a statement such as:  
 7.2 "I, [name], a member of the American Academy of Actuaries, am associated with  
 7.3 the firm of [name of consulting firm]. I have been appointed by, or by the authority  
 7.4 of, the Board of Directors of [name of company] to render this opinion as stated in  
 7.5 the letter to the commissioner dated [insert date]. I meet the Academy qualification  
 7.6 standards for rendering the opinion and am familiar with the valuation requirements  
 7.7 applicable to life and health insurance companies."

7.8 B. The scope paragraph should include a statement such as:  
 7.9 "I have examined the actuarial assumptions and actuarial methods used in determining  
 7.10 the reserves and related actuarial items listed below, as shown in the annual statement  
 7.11 of the company, as prepared for filing with the state regulatory officials, as of  
 7.12 December 31, 20... Tabulated below are those reserves and related actuarial items  
 7.13 that have been subjected to asset adequacy analysis."

7.14 **Asset Adequacy Tested Amounts—Reserves and Liabilities**

<b><u>Statement Item</u></b>	<b><u>Formula Reserves</u></b> <b><u>(1)</u></b>	<b><u>Additional Actuarial Reserves (a)</u></b> <b><u>(2)</u></b>	<b><u>Analysis Method</u></b> <b><u>(b)</u></b>	<b><u>Other Amount</u></b> <b><u>(3)</u></b>	<b><u>Total Amount</u></b> <b><u>(1)+(2)+(3)</u></b> <b><u>(4)</u></b>
<b><u>Exhibit 5</u></b>					
<u>Life Insurance</u>					
<u>Annuities</u>					
<u>Supplementary Contracts Involving Life Contingencies</u>					
<u>Accidental Death Benefit</u>					
<u>Disability—Active</u>					
<u>Disability—Disabled</u>					
<u>Miscellaneous</u>					

8.1	<u>Total Exhibit 5</u>				
8.2	<b><u>Exhibit 6</u></b>				
8.3	<u>Active Life Reserve</u>				
8.4	<u>Claim Reserve</u>				
8.5	<u>Total Exhibit 6</u>				
8.6	<b><u>Exhibit 7</u></b>				
8.7	<u>Guaranteed Interest</u>				
8.8	<u>Contracts</u>				
8.9	<u>Annuities Certain</u>				
8.10	<u>Supplemental</u>				
8.11	<u>Contracts</u>				
8.12	<u>Dividend</u>				
8.13	<u>Accumulations or</u>				
8.14	<u>Refunds</u>				
8.15	<u>Premium and Other</u>				
8.16	<u>Deposit Funds</u>				
8.17	<u>Total Exhibit 7</u>				
8.18	<b><u>Exhibit 8 Part 1</u></b>				
8.19	<u>Life</u>				
8.20	<u>Health</u>				
8.21	<u>Total Exhibit 8, Part</u>				
8.22	<u>1</u>				
8.23	<u>Separate Accounts</u>				
8.24	<u>(Page 3 of the</u>				
8.25	<u>Annual Statement</u>				
8.26	<u>of the Separate</u>				
8.27	<u>Accounts, Lines 1</u>				
8.28	<u>and 2)</u>				
8.29	<b><u>TOTAL</u></b>				
8.30	<b><u>RESERVES</u></b>				

8.31	<u>IMR (General Account, Page ___ Line ___)</u>	
8.32	<u>(Separate Accounts, Page ___ Line ___)</u>	



9.1	AVR (Page <u>    </u> Line <u>    </u> )	(c)
9.2	Net Deferred and Uncollected Premium	

9.3 **Notes:**

9.4 (a) The additional actuarial reserves are the reserves established under part 2711.0220,  
 9.5 subpart 5, item B.

9.6 (b) The appointed actuary should indicate the method of analysis, determined in  
 9.7 accordance with the standards for asset adequacy analysis referred to in part 2711.0220,  
 9.8 subpart 4, by means of symbols that should be defined in footnotes to the table.

9.9 (c) Allocated amount of Asset Valuation Reserve (AVR).

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

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

9.17 A statement of reliance on other experts should be accompanied by a statement by  
 9.18 each of the experts in the form prescribed by part 2711.0230, subpart 5.

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

9.21 "My examination included a review of the actuarial assumptions and actuarial  
 9.22 methods and of the underlying basic asset and liability records and tests of the  
 9.23 actuarial calculations I considered necessary. I also reconciled the underlying basic  
 9.24 asset and liability records to [exhibits and schedules listed as applicable] of the  
 9.25 company's current annual statement."

10.1 E. If the appointed actuary has not examined the underlying records, but has  
10.2 relied upon data, for example, listings and summaries of policies in force or asset records,  
10.3 prepared by the company, the reliance paragraph should include a statement such as:

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

10.11 The section must be accompanied by a statement by each person relied upon in the  
10.12 form prescribed by subpart 5.

10.13 F. The opinion paragraph should include a statement such as:

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

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

10.18 (2) are based on actuarial assumptions that produce reserves at least as  
10.19 great as those called for in any contract provision as to reserve basis and method, and are  
10.20 in accordance with all other contract provisions;

10.21 (3) meet the requirements of the Insurance Law and regulations of the state  
10.22 of [state of domicile], and are at least as great as the minimum aggregate amounts required  
10.23 by the state in which this statement is filed;

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

11.1 (5) include provision for all actuarial reserves and related statement items  
11.2 which ought to be established.

11.3 The reserves and related items, when considered in light of the assets held by the  
11.4 company with respect to such reserves and related actuarial items including, but not  
11.5 limited to, the investment earnings on the assets, and the considerations anticipated to  
11.6 be received and retained under the policies and contracts, make adequate provision,  
11.7 according to presently accepted actuarial standards of practice, for the anticipated cash  
11.8 flows required by the contractual obligations and related expenses of the company.

11.9 (At the discretion of the commissioner, this language may be omitted for an opinion  
11.10 filed on behalf of a company doing business only in this state and in no other state.)

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

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

11.18 or

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

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

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

12.1  
12.2  
12.3  
12.4  
12.5  
12.6  
12.7  
12.8

\_\_\_\_\_  
Signature of Appointed Actuary  
\_\_\_\_\_  
Address of Appointed Actuary  
\_\_\_\_\_  
Telephone Number of Appointed Actuary  
\_\_\_\_\_  
Date"

12.9 Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims  
12.10 or other new liabilities of an actuarial assumption that differs from a corresponding  
12.11 assumption used for prior new issues or new claims or other new liabilities is not a change  
12.12 in actuarial assumptions within the meaning of this part.

12.13 Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion,  
12.14 then the actuary shall refuse to issue a Statement of Actuarial Opinion. If the appointed  
12.15 actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or  
12.16 qualified actuarial opinion explicitly stating the reasons for the opinion. This statement  
12.17 should follow the scope paragraph and precede the opinion paragraph.

12.18 Subp. 5. **Reliance on information furnished by other persons.** If the appointed  
12.19 actuary relies on the certification of others on matters concerning the accuracy or  
12.20 completeness of any data underlying the actuarial opinion, or the appropriateness of  
12.21 any other information used by the appointed actuary in forming the actuarial opinion,  
12.22 the actuarial opinion should indicate the persons the actuary is relying upon and a  
12.23 precise identification of the items subject to reliance. In addition, the persons on whom  
12.24 the appointed actuary relies shall provide a certification that precisely identifies the  
12.25 items on which the person is providing information and a statement as to the accuracy,  
12.26 completeness, or reasonableness, as applicable, of the items. This certification must

13.1 include the signature, title, company, address, and telephone number of the person  
13.2 rendering the certification, as well as the date on which it is signed.

13.3 Subp. 6. **Alternate option.**

13.4 A. Minnesota Statutes, section 61A.25, gives the commissioner broad authority  
13.5 to accept the valuation of a foreign insurer when that valuation meets the requirements  
13.6 applicable to a company domiciled in this state in the aggregate. As an alternative to the  
13.7 requirements of subpart 2, item F, subitem (3), the commissioner may make one or more  
13.8 of the following additional approaches available to the opining actuary:

13.9 (1) A statement that the reserves "meet the requirements of the insurance  
13.10 laws and regulations of the state of [state of domicile] and the formal written standards  
13.11 and conditions of this state for filing an opinion based on the law of the state of domicile."  
13.12 If the commissioner chooses to allow this alternative, a formal written list of standards  
13.13 and conditions must be made available. If a company chooses to use this alternative, the  
13.14 standards and conditions in effect on July 1 of a calendar year apply to statements for that  
13.15 calendar year, and they remain in effect until they are revised or revoked. If no list is  
13.16 available, this alternative is not available.

13.17 (2) A statement that the reserves "meet the requirements of the insurance  
13.18 laws and regulations of the state of [state of domicile] and I have verified that the  
13.19 company's request to file an opinion based on the law of the state of domicile has been  
13.20 approved and that any conditions required by the commissioner for approval of that  
13.21 request have been met." If the commissioner chooses to allow this alternative, a formal  
13.22 written statement of the allowance shall be issued no later than March 31 of the year it  
13.23 is first effective. It shall remain valid until rescinded or modified by the commissioner.  
13.24 The rescission or modifications shall be issued no later than March 31 of the year they  
13.25 are first effective. Subsequent to that statement being issued, if a company chooses to  
13.26 use this alternative, the company shall file a request to do so, along with justification

14.1 for its use, no later than April 30 of the year of the opinion to be filed. The request  
 14.2 shall be deemed approved on October 1 of that year if the commissioner has not denied  
 14.3 the request by that date.

14.4 (3) A statement that the reserves "meet the requirements of the insurance  
 14.5 laws and regulations of the state of [state of domicile] and I have submitted the required  
 14.6 comparison as specified by this state."

14.7 (a) If the commissioner chooses to allow this alternative, a formal  
 14.8 written list of products, to be added to the table in unit (b), for which the required  
 14.9 comparison must be provided will be published. If a company chooses to use this  
 14.10 alternative, the list in effect on July 1 of a calendar year must apply to statements for that  
 14.11 calendar year, and it remains in effect until it is revised or revoked. If no list is available,  
 14.12 this alternative is not available.

14.13 (b) If a company desires to use this alternative, the appointed actuary  
 14.14 shall provide a comparison of the gross nationwide reserves held to the gross nationwide  
 14.15 reserves that would be held under codification standards of the National Association of  
 14.16 Insurance Commissioners. Gross nationwide reserves are the total reserves calculated for  
 14.17 the total company in force business directly sold and assumed, indifferent to the state in  
 14.18 which the risk resides, without reduction for reinsurance ceded. The information provided  
 14.19 must be at least:

<u>(1)</u> <u>Product Type</u>	<u>(2)</u> <u>Death Benefit or</u> <u>Account Value</u>	<u>(3)</u> <u>Reserves Held</u>	<u>(4)</u> <u>Codification</u> <u>Reserves</u>	<u>(5)</u> <u>Codification</u> <u>Standards</u>

14.23 (c) The information listed must include all products identified by either  
 14.24 the state of filing or any other states subscribing to this alternative.

15.1 (d) If there is no codification standard for the type of product or risk in  
15.2 force or if the codification standard does not directly address the type of product or risk  
15.3 in force, the appointed actuary shall provide detailed disclosure of the specific method  
15.4 and assumptions used in determining the reserves held.

15.5 (e) The comparison provided by the company is to be kept confidential  
15.6 to the same extent and under the same conditions as the actuarial memorandum.

15.7 B. Notwithstanding item A, the commissioner may reject an opinion based on  
15.8 the laws and regulations of the state of domicile and require an opinion based on the  
15.9 laws of this state. If a company is unable to provide the opinion within 60 days of the  
15.10 request or other period of time determined by the commissioner after consultation with  
15.11 the company, the commissioner may contract an independent actuary at the company's  
15.12 expense to prepare and file the opinion.

15.13 **2711.0240 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING**  
15.14 **AN ASSET ADEQUACY ANALYSIS AND REGULATORY ASSET ADEQUACY**  
15.15 **ISSUES SUMMARY.**

15.16 Subpart 1. Generally.

15.17 A. In accordance with Minnesota Statutes, section 61A.25, subdivision 2a, the  
15.18 appointed actuary shall prepare a memorandum to the company describing the analysis  
15.19 done in support of the actuary's opinion regarding the reserves. The memorandum must be  
15.20 made available for examination by the commissioner upon request but must be returned to  
15.21 the company after examination and must not be considered a record of the Department of  
15.22 Commerce or subject to automatic filing with the commissioner.

15.23 B. In preparing the memorandum, the appointed actuary may rely on, and  
15.24 include as a part of the actuary's own memorandum, memoranda prepared and signed by  
15.25 other actuaries who are qualified within the meaning of part 2711.0220, subpart 2, with  
15.26 respect to the areas covered in such memoranda, and so state in the memoranda.

16.1 C. If the commissioner requests a memorandum and no memorandum exists or  
16.2 if the commissioner finds that the analysis described in the memorandum fails to meet  
16.3 the standards of the Actuarial Standards Board or the standards and requirements of this  
16.4 chapter, the commissioner may designate a qualified actuary to review the opinion and  
16.5 prepare such supporting memorandum as is required for review. The reasonable and  
16.6 necessary expense of the independent review must be paid by the company but must be  
16.7 directed and controlled by the commissioner.

16.8 D. The reviewing actuary has the same status as an examiner for purposes of  
16.9 obtaining data from the company and the work papers and documentation of the reviewing  
16.10 actuary must be retained by the commissioner; provided, however, that any information  
16.11 provided by the company to the reviewing actuary and included in the work papers is  
16.12 considered material provided by the company to the commissioner and must be kept  
16.13 confidential to the same extent as is prescribed by law with respect to other material  
16.14 provided by the company to the commissioner pursuant to the statutes governing this  
16.15 chapter. The reviewing actuary must not be an employee of a consulting firm involved  
16.16 with the preparation of any prior memorandum or opinion for the insurer pursuant to this  
16.17 chapter for any one of the current year or the preceding three years.

16.18 E. In accordance with Minnesota Statutes, section 61A.25, subdivision 2a, the  
16.19 appointed actuary shall prepare a regulatory asset adequacy issues summary, the contents  
16.20 of which are specified in subpart 3. The regulatory asset adequacy issues summary  
16.21 must be submitted no later than March 15 of the year following the year for which a  
16.22 Statement of Actuarial Opinion based on asset adequacy is required. The regulatory asset  
16.23 adequacy issues summary is to be kept confidential to the same extent and under the same  
16.24 conditions as the actuarial memorandum.

16.25 Subp. 2. **Details of the memorandum section documenting asset adequacy**  
16.26 **analysis.** When an actuarial opinion is provided, the memorandum must demonstrate that



17.1 the analysis has been done in accordance with the standards for asset adequacy referred  
17.2 to in part 2711.0220, subpart 4, and any additional standards under this chapter. It must  
17.3 specify:

17.4 A. for reserves:

17.5 (1) product descriptions including market description, underwriting, and  
17.6 other aspects of a risk profile and the specific risks the appointed actuary deems significant;

17.7 (2) source of liability in force;

17.8 (3) reserve method and basis;

17.9 (4) investment reserves;

17.10 (5) reinsurance arrangements;

17.11 (6) identification of any explicit or implied guarantees made by the general  
17.12 account in support of benefits provided through a separate account or under a separate  
17.13 account policy or contract and the methods used by the appointed actuary to provide for  
17.14 the guarantees in the asset adequacy analysis; and

17.15 (7) documentation of assumptions to test reserves for the following:

17.16 (a) lapse rates, both base and excess;

17.17 (b) interest crediting rate strategy;

17.18 (c) mortality;

17.19 (d) policyholder dividend strategy;

17.20 (e) competitor or market interest rate;

17.21 (f) annuitization rates;

17.22 (g) commissions and expenses; and

17.23 (h) morbidity.

18.1 The documentation of the assumptions must be such that an actuary reviewing  
18.2 the actuarial memorandum could form a conclusion as to the reasonableness of the  
18.3 assumptions;

18.4 B. for assets:

18.5 (1) portfolio descriptions, including a risk profile disclosing the quality,  
18.6 distribution, and types of assets;

18.7 (2) investment and disinvestment assumptions;

18.8 (3) source of asset data;

18.9 (4) asset valuation bases; and

18.10 (5) documentation of assumptions made for:

18.11 (a) default costs;

18.12 (b) bond call function;

18.13 (c) mortgage prepayment function;

18.14 (d) determining market value for assets sold due to disinvestment  
18.15 strategy; and

18.16 (e) determining yield on assets acquired through the investment  
18.17 strategy.

18.18 The documentation of the assumptions must be such that an actuary reviewing  
18.19 the actuarial memorandum could form a conclusion as to the reasonableness of the  
18.20 assumptions;

18.21 C. for the analysis basis:

18.22 (1) methodology;

18.23 (2) rationale for inclusion or exclusion of different blocks of business and  
18.24 how pertinent risks were analyzed;

19.1           (3) rationale for degree of rigor in analyzing different blocks of business  
19.2 (include in the rationale the level of "materiality" that was used in determining how  
19.3 rigorously to analyze different blocks of business);

19.4           (4) criteria for determining asset adequacy (include in the criteria the  
19.5 precise basis for determining if assets are adequate to cover reserves under "moderately  
19.6 adverse conditions" or other conditions as specified in relevant actuarial standards of  
19.7 practice); and

19.8           (5) whether the impact of federal income taxes was considered and the  
19.9 method of treating reinsurance in the asset adequacy analysis;

19.10          D. summary of material changes in methods, procedures, or assumptions from  
19.11 prior year's asset adequacy analysis;

19.12          E. summary of results; and

19.13          F. conclusions.

19.14          Subp. 3. Details of the regulatory asset adequacy issues summary.

19.15          A. The regulatory asset adequacy issues summary must include:

19.16           (1) descriptions of the scenarios tested, including whether those scenarios  
19.17 are stochastic or deterministic, and the sensitivity testing done relative to those scenarios.  
19.18 If negative ending surplus results under certain tests in the aggregate, the actuary should  
19.19 describe those tests and the amount of additional reserve as of the valuation date which, if  
19.20 held, would eliminate the negative aggregate surplus values. Ending surplus values must  
19.21 be determined by either extending the projection period until the in-force and associated  
19.22 assets and liabilities at the end of the projection period are immaterial or by adjusting  
19.23 the surplus amount at the end of the projection period by an amount that appropriately  
19.24 estimates the value that can reasonably be expected to arise from the assets and liabilities  
19.25 remaining in force;

20.1           (2) the extent to which the appointed actuary uses assumptions in the asset  
20.2 adequacy analysis that are materially different than the assumptions used in the previous  
20.3 asset adequacy analysis;

20.4           (3) the amount of reserves and the identity of the product lines that had  
20.5 been subjected to asset adequacy analysis in the prior opinion but were not subject to  
20.6 analysis for the current opinion;

20.7           (4) comments on any interim results that may be of significant concern to  
20.8 the appointed actuary. For example, the impact of the insufficiency of assets to support the  
20.9 payment of benefits and expenses and the establishment of statutory reserves during one  
20.10 or more interim periods;

20.11           (5) the methods used by the actuary to recognize the impact of reinsurance  
20.12 on the company's cash flows, including both assets and liabilities, under each of the  
20.13 scenarios tested; and

20.14           (6) whether the actuary has been satisfied that all options, whether explicit  
20.15 or embedded, in any asset or liability, including but not limited to those affecting cash  
20.16 flows embedded in fixed income securities, and equity-like features in any investments  
20.17 have been appropriately considered in the asset adequacy analysis.

20.18           B. The regulatory asset adequacy issues summary must contain the name of the  
20.19 company for which the regulatory asset adequacy issues summary is being supplied and  
20.20 must be signed and dated by the appointed actuary rendering the actuarial opinion.

20.21           Subp. 4. **Conformity to standards of practice.** The memorandum must include a  
20.22 statement:

20.23           "Actuarial methods, considerations, and analyses used in the preparation of this  
20.24 memorandum conform to the appropriate Standards of Practice as promulgated by the  
20.25 Actuarial Standards Board, which standards form the basis for this memorandum."

21.1 Subp. 5. Use of assets supporting interest maintenance reserve and asset  
21.2 valuation reserve. An appropriate allocation of assets in the amount of the interest  
21.3 maintenance reserve (IMR), whether positive or negative, shall be used in any asset  
21.4 adequacy analysis. Analysis of risks regarding asset default may include an appropriate  
21.5 allocation of assets supporting the asset valuation reserve (AVR). The AVR assets may  
21.6 not be applied for any other risks with respect to reserve adequacy. Analysis of these and  
21.7 other risks may include assets supporting other mandatory or voluntary reserves available  
21.8 to the extent not used for risk analysis and reserve support.

21.9 The amount of the assets used for the AVR must be disclosed in the table of reserves  
21.10 and liabilities of the opinion and in the memorandum. The method used for selecting  
21.11 particular assets or allocated portions of assets must be disclosed in the memorandum.

21.12 Subp. 6. Required interest scenarios. For the purpose of performing the asset  
21.13 adequacy analysis required by this chapter, the qualified actuary shall follow standards  
21.14 adopted by the Actuarial Standards Board; nevertheless, the appointed actuary must  
21.15 consider in the analysis the effect of at least the following interest rate scenarios:

21.16 A. level with no deviation;

21.17 B. uniformly increasing over ten years at one-half percent per year and then  
21.18 level;

21.19 C. uniformly increasing at one percent per year over five years and then  
21.20 uniformly decreasing at one percent per year to the original level at the end of ten years  
21.21 and then level;

21.22 D. an immediate increase of three percent and then level;

21.23 E. uniformly decreasing over ten years at one-half percent per year and then  
21.24 level;

22.1 F. uniformly decreasing at one percent per year over five years and then  
22.2 uniformly increasing at one percent per year to the original level at the end of ten years  
22.3 and then level; and

22.4 G. an immediate decrease of three percent and then level.

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

22.8 The beginning interest rates may be based on interest rates for new investments as  
22.9 of the valuation date similar to recent investments allocated to support the product being  
22.10 tested or be based on an outside index, such as treasury yields, of assets of the appropriate  
22.11 length on a date close to the valuation date. Whatever method is used to determine the  
22.12 beginning yield curve and associated interest rates should be specifically defined. The  
22.13 beginning yield curve and associated interest rates should be consistent for all interest  
22.14 rate scenarios.

22.15 Subp. 7. **Documentation.** The appointed actuary shall retain on file, for at least seven  
22.16 years, sufficient documentation so that it will be possible to determine the procedures  
22.17 followed, the analyses performed, the bases for assumptions, and the results obtained.

22.18 **REPEALER.** Minnesota Rules, parts 2711.0020; 2711.0030; 2711.0040; 2711.0050;  
22.19 2711.0060; 2711.0070; 2711.0080; 2711.0090; and 2711.0100, are repealed.

22.20 **EFFECTIVE DATE; APPLICATION.** Minnesota Rules, parts 2711.0200 to 2711.0240,  
22.21 are effective as provided in Minnesota Statutes, section 14.18, and apply to all annual  
22.22 statements filed with the Department of Commerce on or after that date.