



August 1, 2024

Rachel Hemphill, Chair  
Craig Chupp, Vice Chair  
Life Actuarial (A) Task Force  
National Association of Insurance Commissioners (NAIC)  
1100 Walnut Street, Ste 1000  
Kansas City, MO 64106

Re: Draft Knowledge Statements for Life and Health Actuaries

Dear Chair Hemphill and Vice Chair Chupp,

On behalf of the American Academy of Actuaries (Academy),<sup>1</sup> I appreciate the opportunity to share an update regarding the [Life Actuarial \(A\) Task Force](#)'s (LATF) request following the Fall National Meeting in Orlando.

In your [November 30, 2023, letter](#), you requested that the Academy develop knowledge statements that outline the knowledge necessary for life actuaries signing certain statements of actuarial opinion, including the roles of appointed actuary, illustration actuary, and qualified actuary for principles-based reserves. After meeting with you and several of the members of LATF and the Health (B) Actuarial Task Force (HATF) to better understand your expectations, the Academy has drafted the attached materials. This draft reflects our initial effort to develop such knowledge statements for appointed actuary roles for the blue blank filings (life). After LATF's review of these knowledge statements, we intend to develop the subsequent knowledge statements for qualified actuary and illustration actuary. We anticipate that the knowledge statements for qualified actuary will be a subset of the knowledge statements for an appointed actuary.

The drafted knowledge statements are intended to reflect a baseline level of knowledge that the actuary should have for a designated role. Meeting this baseline level of knowledge does not imply that an actuary is qualified to issue the specified actuarial opinion. The [Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States](#) (USQS) has many components of qualification beyond the baseline level of knowledge. In addition, there

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<sup>1</sup> The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

may be certain situations where the specified actuarial opinion is so limited in scope that some components of the baseline level of knowledge are not necessary.

The knowledge statements were developed by a group of Academy volunteers and have not been subject to a formal exposure process. As such, they should not be interpreted to be prescriptive or to be an interpretation of the USQS.

The Academy is pleased to be able to assist LATF in this analysis. We appreciate your ongoing collaboration and feedback on this effort. Per your original request, we do expect that the final drafts will be submitted to LATF before the end of 2024. If you have any further questions, please feel free to contact Geralyn Trujillo, senior director of public policy ([trujillo@actuary.org](mailto:trujillo@actuary.org), 202-785-7875).

Sincerely,

Lisa Slotznick, President  
American Academy of Actuaries

cc: Scott O'Neal, NAIC

## Knowledge Statements for Appointed Actuary for Life Blank

These knowledge statements would apply to Appointed Actuary for Life and apply to the Life, Accident and Health Annual Statement, also known as the Life Blank or Blue Blank for the Life A&H Annual Statement and Fraternal Annual Statement.

As stated within the Valuation Manual, [Chapter 30 \(VM-30\)](#), the requirements for an actuary to qualify as the Appointed Actuary and be permitted to sign the Actuarial Opinion, as stated in [VM-30](#), Section 3.A.4., explains that the Appointed Actuary should be:

- A member of the American Academy of Actuaries (Academy);
- Appointed in accordance with the requirements of the Valuation Manual; and
- Meet the qualification standards set forth by the Academy for rendering the opinion.

The Academy qualification standards for rendering the opinion are in the “[Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States](#) (USQS), effective January 1, 2022. The standards were revised from prior editions of this qualification standard and therefore specifically apply to actuaries issuing Statements of Actuarial Opinion (SAO) starting on January 1, 2023. Furthermore, such actuaries need to meet the continuing education (CE) requirements before issuing any SAO.

Section 2.1 of the [USQS](#) specifies the Basic Education and Experience Requirements, stating that an actuary should have achieved the following:

- Through education or mutual recognition, received a Fellow or Associate designation from either the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). It is important to note that this would most likely be the SOA for an actuary issuing an opinion related to the Life/Blue Blank.
- Membership in the Academy.
- Three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems.
- Be knowledgeable, through education or documented professional development, of
  1. U.S. Law, including statutes, regulations, judicial decisions, and other statements having legally binding authority, applicable to the SAO, and
  2. U.S. actuarial practices and principles.
- Have either
  1. Obtained Fellowship in the CAS or SOA. In addition to obtaining this fellowship, the actuary must:
    - i. Have completed education relevant to the subject of the SAO. Such education may have been obtained in attaining the fellowship designation or highest possible designation of a non-U.S. actuarial organization, or by completing additional education relevant to the subject of the SAO; or
    - ii. Have a minimum of one year of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who

was qualified to issue the SAO at the time the review took place under the USQS in effect at the time.

OR

2. Have a minimum of three years of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who was qualified to issue the SAO at the time the review took place under the USQS in effect at that time.

Section 3 of the [USQS](#) specifies the Specific Qualification Standards beyond those required to satisfy the General or Basic Education and Experience requirements. For issuing Life, A&H, and Fraternal SAO, this includes examinations administered by either the Academy or SOA covering

- (a) policy forms and coverages,
- (b) dividends and reinsurance,
- (c) investments and valuations of assets and the relationship between cash flows form assets and related liabilities,
- (d) statutory insurance accounting,
- (e) valuation of liabilities, and
- (f) valuation and nonforfeiture laws.

Alternatively, this education may be acquired through responsible work or self-study, if another qualified actuary familiar with the work is willing to attest to the knowledge of the opining actuary. To meet the experience requirement, an actuary is required to have at least three years of responsible experience relevant to the Opinion, under the review of another actuary who was qualified to issue the Opinion at the time the review took place.

*Note: Because the Life Blank may include Health Reserves, specifically on Exhibits 6 and 8, the life appointed actuary should have exposure to long-duration health products commonly sold by life companies, such as LTC, disability and dread disease products, and therefore will also need to refer to the Health Knowledge Statement.*

***DRAFTING NOTES: The regulators may allow caveats in the stem since not all statements filed on the Blue Blank will include every item listed in the Knowledge Statement.***

***To address the regulatory concern of “not knowing what you don’t know,” a comprehensive listing is a good direction. These knowledge statements should also be seen as a flexible document that keeps old products relevant while being updated to allow for new product concepts along the way***

***It may be beneficial to include guidance in a cover page or introduction to the knowledge statements that suggests a “best practice” for the actuary, encouraging record keeping of the key items and an explanation of how the actuary met the requirement, such as when they***

*achieved a credential or what their 1 or 3 years of experience looked like, which is kept updated. This record is particularly valuable when there are changes within their organization, to help an Appointed Actuary think about and know about when working with a new product.*

#### **A. Actuarial Opinion Scope**

The Life Actuarial Opinion Scope, per [VM-30](#), Section 3.A.5. states that the scope of the opinion is:

- Exhibit 5 Reserves (Life)
  - Life Insurance
  - Annuities
  - Supplementary Contracts Involving Life Contingencies
  - Accidental Death Benefits
  - Disability Insurance – Active Life Reserves and Disabled Life Reserves
  - Miscellaneous Reserves
- Exhibit 6 Reserves (Accident and Health)
  - Active Life Reserve
  - Claim Reserve
- Exhibit 7
  - Guaranteed Interest Contracts
  - Annuities Certain
  - Supplemental Contracts
  - Dividend Accumulations or Refunds
  - Premium and Other Deposit Funds
- Exhibit 8, Part 1
  - Life
  - Health
- IMR
- AVR
- Unearned Premium Reserve
- Life PBR (VM-20)
- Annuity PBR (VM-21)
- Risk Based Capital (RBC) Requirements, either within the Valuation Manual or otherwise applicable under the Standard Valuation Law
- Forthcoming (applicable) Valuation Manual Sections
- Components of the actuarial opinion and the actuarial memorandum, including types of opinions and prescribed language
- Timing of actuarial opinion and actuarial memorandum

#### **B. Law, Statutes and Regulations**

The Appointed Actuary must be able to assess the effect of the legal environment on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties.

The Appointed Actuary must understand relevant U.S. and state insurance law, regulatory authority, and regulations.

1. Insurance law with respect to its impact on Life, Accident and Health insurance and Fraternal insurers
2. Financial solvency regulation's purpose
3. U.S. federal and state laws and regulations that pertain to the SAO
4. State specific laws, regulations, regulatory authority and rules regarding the preparation of annual statements
5. Principles of statutory accounting and sources of guidance
6. Familiarity with statutory accounting blanks, the NAIC's Accounting Practices and Procedures Manual, including all relevant SSAPs and Actuarial Guidelines.
7. Differentiation between reserves and liabilities
8. Covered versus uncovered liabilities
9. Treatment of reinsurance in statutory accounting, including transfer of risk issues
10. Elements of the RBC formula and the regulatory impact of RBC

### **C. Policy Forms and Coverages**

The Appointed Actuary must be able to assess the effect of insurance coverages and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the types of insurable exposures and related insurance products.

1. Products typically offered by Life, A&H, or Fraternal carriers and associated characteristics including:
  - a. Individual Life Insurance
  - b. Individual Fixed, Fixed Indexed and Variable Deferred Annuities
  - c. Immediate Annuities and Settlement Options, with and without Life Contingencies
  - d. Other Supplemental Contracts
  - e. Group Life
  - f. Group Annuities
  - g. GICs and Funding Agreements
  - h. Pension Risk Transfer Arrangements
  - i. Ancillary Benefits and Riders such as Accidental Death Benefits, Waiver of Premium, etc.
  - j. Medical insurance, including individual, small group, large group, self-funded, Medicare advantage, Medicare Part D, Medicare Supplement, Medicaid Managed Care, and short term medical.
  - k. Dental and vision insurance.
  - l. Disability insurance, both short-term disability and long-term disability
  - m. Long-term care.

- n. Other health insurance, including but not limited to, cancer/critical illness and hospital and other fixed indemnity.
2. Features typically offered by Life, A&H or Fraternal carriers and associated characteristics including:
- a. Accelerated Death Benefits
  - b. Return of Premium
  - c. Critical Illness, Terminal Illness, Long-Term Care and Other Rider Benefits
  - d. Guaranteed Death Benefits
  - e. Guaranteed Living Benefits
  - f. Cash and Nonforfeiture Values

#### **D. Principles of insurance and underwriting**

The Appointed Actuary must be able to assess the effect of underwriting and marketing, and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand how insurance companies assume risk through marketing and underwriting.

- 1. Various types of underwriting for each of the coverages and features described in Section C, Policy Forms and Coverages, above, including differences between full underwriting, accelerated underwriting, simplified issue and guaranteed issue.
- 2. Concept of insurable risk.
- 3. Product characteristics giving the insured optionality to select against the insurer.
- 4. Various types of marketing and distribution methods for each of these coverages, as well as the differences in underwriting and/or policyholder behavior that may be associated with each.
- 5. For products most commonly offered by health carriers and associated characteristics, behavioral choices involved as a form of underwriting, including:
  - a. Impact of limited networks and limited coverages
  - b. Impact of healthy lifestyle benefits on individual choice
  - c. Individual choice relationship to funding sources.
- 6. Seasonal patterns of claim incurrals for various products.

#### **E. Reserves**

The Appointed Actuary must understand and apply reserving methods, analysis, and diagnostics to derive actuarial reserves. Additionally, the Appointed Actuary must understand the company's internal operations and data, external environment, and relevant changes therein. Furthermore, the Appointed Actuary must be able to produce an SAO, an Actuarial Opinion summary, and an Actuarial Report in accordance with the NAIC Annual Statement Instructions and understand and produce the statutory minimum reserve for each product. Also, the Appointed Actuary must

be knowledgeable of the methods of analysis used, as referred to in [VM-30](#), Section 2.B. This section cites conformance with [Actuarial Standards of Practice](#) (ASOPs) and methods of analysis that are deemed appropriate for such purposes by the [ASB](#).

1. All non-modeled reserves, such as formulaic and PBR Net Premium Reserve.
2. Modeled Reserve required by the Valuation Manual (aka Principle-Based Reserve).
  - a. Knowledge of models:
    - i. Impacts of model simplification.
  - b. Knowledge of experience studies and assumption development:
    - i. Credibility of data.
    - ii. Volatility of assumptions/impact on results.
  - c. Appropriate use of margins or assumption pads.
  - d. The discount rate and NAER assumptions for PBR reserve, understanding of assets, asset risks, asset returns, reinvestment assumptions.
3. Unearned Premium Reserve.
4. For health products: ALR/Contract Reserve, Unearned Premium Reserve, DLR/Claim Reserve and Premium Deficiency Reserve.
5. Reserves for Base Contract and any riders (if reserved for separately).
6. Interest Maintenance Reserve.
7. Asset Valuation Reserve.
8. Adequacy of Asset Supporting Reserve:
  - a. Asset Models and Assumptions related to the asset, risks present in individual assets or types of assets, and return assumptions related to assets.
  - b. Reinvestment Assumptions, including the availability of assets in the future for purchase as reinvestment assets, as well as the risks related to the timing of future reinvestments.
  - c. How the starting assets and reinvestment strategy impact Net Earned Rate and Discount Rates.
  - d. Asset Adequacy Analysis and related SAOs.

## **F. Other Considerations**

1. The Appointed Actuary must understand and the reserving methods for other reserves and liabilities, as well as the placement of various reserve items within the blue blank
2. The Appointed Actuary must understand asset adequacy analysis and how to determine any amount of additional reserves to be established
3. The Appointed Actuary must understand the treatment of reserve changes related to basis, method and assumption changes, and whether they flow through income or surplus, when and how.
4. The Appointed Actuary must understand health reserving considerations (see Health Knowledge Statement, as applicable), to include:
  - a. Premium reserves, assets and liabilities typically found in health products, methods for calculating.



- b. Loss reserves, assets and liabilities typically found in health products, methods for calculating (including considerations):
  - i. Unpaid claim reserves and liabilities including segmentation into not reported, in course of settlement, due and unpaid and present value of amounts not yet due.
  - ii. Contract reserves and gross premium reserves including prescribed minimum assumptions.
  - iii. Provider assets and liabilities including the types of contractual provisions that give rise to such assets/liabilities.
- c. Claim adjustment expense liability.
- d. Elements in calculating premium deficiency reserves.
- e. Capitations and risk of provider insolvency.
- f. Other actuarial assets often associated with health insurance products, methods for estimating, and necessary conditions for admissibility:
  - i. Provider risk sharing receivables
  - ii. Loans and advances to providers
  - iii. Capitation arrangement receivables
  - iv. Pharmacy rebate receivables
  - v. Claim overpayment receivables
  - vi. Seasonal patterns of claims incurred for various products.

## **G. Reinsurance**

The Appointed Actuary must be able to assess the effect of reinsurance on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the functions and types of reinsurance, relevant contract features, risk transfer principles, and reinsurance accounting, recognition and collectability issues. The Appointed Actuary must understand basic reinsurance terminology (e.g., limits, retentions/attachment points, quota share, excess of loss, non-proportional, experience refund, allowances, clauses, reinstatements, co-insurance, commissions). The Appointed Actuary must also understand:

1. The function and types of reinsurance.
2. Reinsurance contracts interpretation.
3. Reinsurance contracts to determine the treatment of loss adjustment expenses (LAE) (e.g., within limits, in addition to limits, shared pro rata).
4. Commutations and novations including definition, motivations of parties, accounting treatment, impact (or not) on policyholders.
5. Impact on financial statements from contract qualification criteria for prospective or retroactive reinsurance accounting treatment or deposit accounting treatment.
6. Reinsurance risk transfer testing.
7. Assessing collectability (e.g., sources, rating agencies, letters of credit, news items, amounts in dispute or overdue).
8. The impact of authorized, unauthorized, certified reinsurance on collateral and collectability.

9. Differences between reinsurance and primary reserving procedures (e.g., adapting methods for available data, type of reinsurance, terms).
10. Factors considered in the evaluation of the applicability of a reinsurance program to an unpaid claim estimate.
11. Possible parameter differences for direct, assumed, gross, ceded and net data (e.g., loss development factors and initial expected loss ratios).
12. Treatment of assets and reserves on the financial statements. (For example, mod-co reserves and assets are held by the cedant; FWH assets, even in a trust, are owned by the cedant; plain-vanilla coinsurance agreements have both parties holding separately calculated assets and liabilities.)
13. Consideration of the treatment of reinsurance by reinsurers outside of US Jurisdiction.

## **I. Professionalism and Business Skills**

The Appointed Actuary must have professional and business skills to enable the Appointed Actuary to perform the required actuarial services in an ethical manner that upholds the reputation of the actuarial profession. The Appointed Actuary must know and adhere to the [Code of Professional Conduct](#), as well as relevant [ASOPs](#) and must meet the [USQS](#). The Appointed Actuary must have the professional and business skills to manage the tasks, make informed decisions, communicate effectively with users of the actuary's work products, resolve disagreements, and seek guidance as necessary.

1. Code of Conduct: Familiarity with the Code of Conduct and its application in professional scenarios.
2. USQS: Profound understanding of the USQS.
3. ASOPs and Applicability: Mastery of applicable ASOPs and guidelines for their application. The actuary should refer to the Academy's Applicability Guidelines for help in determining applicable ASOPs.
4. The importance of Documentation of work as discussed in many ASOPs and as required by the Laws and Regulations applicable to the SAO.

Familiarity with the relevant Practice Notes from the Academy is also a valuable component of professionalism.