



August 1, 2024

Kevin Dyke, Chair  
Ryan Jubber, Vice Chair  
Health Actuarial (B) 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 Dyke and Vice Chair Jubber,

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 a [November 30, 2023, letter](#), LATF 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 LATF leadership, along with several members of the Health (B) Actuarial Task Force (HATF) to better understand expectations, the Academy has drafted the attached materials. The draft reflects our initial effort to develop such knowledge statements for appointed actuary roles for orange blank filings (health).

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 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.

---

<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.

The Academy is pleased to be able to assist both actuarial task forces in this analysis. We appreciate your ongoing collaboration and feedback on this effort. Per the original request, we do expect that the final drafts will be submitted to HATF 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: Eric King, NAIC

## **Knowledge Statements for Appointed Actuary for Health Blank**

These knowledge statements would apply to Appointed Actuary for Health and apply to the Health Annual Statement, also known as the Health Blank or Orange Blank.

As stated within the Health Blank instructions, the requirements for an actuary to qualify as the Appointed Actuary and be permitted to sign the Actuarial Opinion are that the actuary must be “a member in good standing of the American Academy of Actuaries, or a person recognized by the American Academy of Actuaries as qualified for such actuarial valuation.” Being a member in good standing implies, among other things, that an actuary adheres to the “Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States” (USQS), effective January 1, 2022.

The USQS was revised from prior editions of the qualification standards and therefore specifically apply to actuaries issuing Statements of Actuarial Opinion (SAOs) starting on January 1, 2023. Furthermore, such actuaries need to meet the continuing education (CE) requirements before issuing any SAOs.

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 Health/Orange 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 Health SAO, this includes examinations administered by either the Academy, CAS or SOA covering

- a) Principles of insurance and underwriting;
- b) Principles of ratemaking;
- c) Statutory insurance accounting and expense analysis;
- d) Premium, loss, expense and contingency reserves; and
- e) Social insurance.

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.

***DRAFTING NOTES: The regulators may allow caveats in the stem since not all statements filed on the Health 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.***

### **Principles of Insurance and Underwriting**

1. **Insurable Risk Concepts:** Understanding the dynamic between moral hazard and insurable risks; recognizing the increased risks associated with moral hazards as insurable risks diminish.

2. **Health Insurance Products:** In-depth knowledge of various health insurance products and their unique features, including:
  - **Medical Insurance:** Differentiating between individual, small group, large group, self-funded, Medicare Advantage, Medicare Part D, Medicare Supplement, Managed Medicaid, and short-term medical plans.
  - **Dental and Vision Insurance:** Characteristics and coverage details.
  - **Group Term Life and AD&D:** Key aspects and insurance parameters.
  - **Disability Insurance:** Nuances of short-term, individual, and long-term disability insurance.
  - **Long-Term Care:** Coverage scope and policy features.
  - **Specialized Health Insurance:** Understanding cancer/critical illness and hospital indemnity insurance.
3. **Distribution Methods:** Comprehensive knowledge of distribution channels for each type of coverage.
4. **Underwriting Processes:** Mastery of underwriting procedures for each coverage type and strategies to address selection risks.
5. **Behavioral Underwriting Factors:**
  - Effects of network and coverage limitations.
  - Impact of healthy lifestyle incentives on consumer choices.
  - The correlation between individual choices and funding sources.
6. **Seasonal Claim Patterns:** Recognizing and analyzing seasonal trends in claim incidences for different products.

### Principles of Ratemaking

1. **Premium Rate Components:** Understanding the constituents of premium rates, including benefit costs, expenses, and risk charges.
2. **Medical Insurance Contract Elements:** Comprehensive knowledge of risk assumption, provider network access, care management/wellness programs, and claims management/adjudication.
3. **Risk Levels of Different Products:** Expertise in evaluating risk for diverse products, including self-funded plans, dental/vision, retrospective experience rated, fully insured plans, specific and aggregate stop loss, disability, and long-term care (LTC).
4. **Renewal Rate Change Rules:** Familiarity with renewal rate change regulations for each product.
5. **Rating Restrictions:** Understanding the rating limitations for products such as those under the 2010 federal statute, the Patient Protection and Affordable Care Act (ACA).
6. **Risk Adjustment in ACA and Medicare Advantage:** Proficiency in the impact of risk adjustment on premium amounts and payment timings, including risk adjustment data validation (RADV) issues.

### Statutory Insurance Accounting and Expense Analysis

1. **Statutory Accounting Principles:** Deep understanding of statutory accounting principles and guidance sources.
2. **Statutory Accounting Blanks and SSAPs:** Familiarity with statutory accounting blanks and associated Statements of Statutory Accounting Principles (SSAPs).
3. **Conservatism in Financial Statements:** Knowledge of the treatment of conservatism in statutory financial statements.
4. **Reserves vs. Liabilities:** Distinguishing between reserves and liabilities.
5. **Covered and Uncovered Expenses/Liabilities:** Understanding the differences and implications.
6. **Reinsurance Treatment:** Mastery of reinsurance treatment in statutory accounting, including issues related to risk transfer.
7. **Expense Segmentation:** Skills in segmenting expenses between claim adjustment expenses and distinguishing between variable and overhead costs.
8. **Appointed Actuary Requirements:** Familiarity with the roles and responsibilities.
9. **Actuarial Opinion and Memorandum Components:** Understanding of the different types of opinions, prescribed language, and scope.
10. **Timing of Actuarial Opinions and Memorandums:** Knowledge of appropriate timing for these documents.
11. **Risk-Based Capital (RBC) Formula Elements:** Expertise in the components of the risk-based capital formula and its regulatory impacts.
12. **Testing of Prior Period Liabilities and Assets:** Skills in evaluating the accuracy and adequacy of prior period liabilities and actuarial assets.

### **Premium, Loss, Expense, and Contingency Reserves (and Actuarial Assets)**

1. **Premium Reserves:** Understanding of assets and liabilities typically found in health products, calculation methods, and their documentation. Premium reserves include items such as:
  1. Due and uncollected premium
  2. Premium paid in advance
  3. Unearned premium
  4. Retrospective premium receivable or payable
  5. Risk adjustment receivable or payable
  6. Minimum loss ratio (MLR) refund liability
  7. Risk corridor assets and liabilities
2. **Loss Reserves:** Proficiency in calculating loss reserves, including segmentation and consideration for various factors. Loss reserves include items such as:
  1. 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.
  2. Contract reserves and gross premium reserves, including prescribed minimum assumptions.
  3. Provider assets and liabilities, including the types of contractual provisions that give rise to such assets/liabilities.

3. **Claim Adjustment Expense Liability:** Expertise in determining claim adjustment expense liabilities.
4. **Premium Deficiency Reserves:** Mastery in calculating premium deficiency reserves (PDR), including considerations for grouping, projection time periods, expense reallocation, treatment of investment income, and tax implications.
5. **Asset Adequacy Analysis:** Skills in conducting asset adequacy analysis and determining additional reserve requirements.
6. **Capitations and Provider Insolvency Risks:** Knowledge of capitations and the associated risks of provider insolvency.
7. **Other Actuarial Assets:** Expertise in estimating and documenting other actuarial assets specific to health insurance products. Other actuarial assets include items such as:
  1. Provider risk sharing receivables
  2. Loans and advances to providers
  3. Capitation arrangement receivables
  4. Pharmacy rebate receivables
  5. Claim overpayment receivables

## **Social Insurance**

1. **Medicare Program:** Comprehensive understanding of the components, coverages, and funding mechanisms of the Medicare program.
2. **Medicaid and CHIP:** In-depth knowledge of Medicaid and the Children's Health Insurance Program (CHIP), including their components, coverages, and funding.
3. **Disability Insurance and Social Security:** Understanding the components and coverages of the Disability Insurance (DI) portion of Social Security and its interactions with other disability income coverages.

## **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. **US Qualification Standards**: Profound understanding of the USQS.
3. **Actuarial Standards of Practice (ASOPs) and Applicability**: Mastery of applicable ASOPs and guidelines for their application. The actuary should refer to the Academy's Applicability Guidelines to determine applicable ASOPs.
4. **Documentation**: Understanding the importance of documentation of work as discussed in many ASOPs and as required by the Laws and Regulations applicable to the SAO.

In addition to these knowledge statements, Section 2.1.c of the USQS requires the actuary to be knowledgeable of the U.S. law applicable to the SAO. For a health blank actuarial opinion signed by the Appointed Actuary, this would include knowledge of:

- Health Insurance Reserves Model Regulation.
- NAIC Health Reserve Guidance Manual.
- NAIC Annual Statement Instructions, specifically as it relates to Health and the SAO.
- Applicable provisions of Health Insurance Portability and Accountability Act (HIPAA)
- Applicable SSAPs including:
  - SSAP 54
  - SSAP 55
  - SSAP 84
- Individual state laws and regulations applicable to the actuarial opinion and assets and liabilities within the scope of the opinion.
- Other applicable laws and regulations related to specific products referenced in the specific SAO.

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