

## NAIC BLANKS (E) WORKING GROUP

### Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: <u>03/02/2022</u></p> <p><b>CONTACT PERSON:</b> <u>Eric King</u></p> <p><b>TELEPHONE:</b> <u>816-708-7982</u></p> <p><b>EMAIL ADDRESS:</b> <u>eking@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>ASOP 28 Task Force, ASB</u></p> <p><b>NAME:</b> <u>Annette James, Chair, ASOP 28 Task Force</u></p> <p><b>TITLE:</b> _____</p> <p><b>AFFILIATION:</b> _____</p> <p><b>ADDRESS:</b> _____</p>	<p style="text-align: center;"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2022-07BWG</u></p> <p>Year <u>2022</u></p> <p>Changes to Existing Reporting [ X ]</p> <p>New Reporting Requirement [ ]</p> <hr/> <p style="text-align: center;"><b><u>REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</u></b></p> <p>No Impact [ X ]</p> <p>Modifies Required Disclosure [ ]</p> <hr/> <p style="text-align: center;"><b><u>DISPOSITION</u></b></p> <p>[ ] Rejected For Public Comment</p> <p>[ ] Referred To Another NAIC Group</p> <p>[ ] Received For Public Comment</p> <p>[ X ] Adopted Date <u>05/25/2022</u></p> <p>[ ] Rejected Date _____</p> <p>[ ] Deferred Date _____</p> <p>[ ] Other (Specify) _____</p>
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#### BLANK(S) TO WHICH PROPOSAL APPLIES

- |  |   |                                      |
|--|---|--------------------------------------|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT       | <input checked="" type="checkbox"/> INSTRUCTIONS  | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT               | <input type="checkbox"/> BLANK                    |                                      |
| <input type="checkbox"/> Life, Accident & Health/Fraternal | <input type="checkbox"/> Separate Accounts        | <input type="checkbox"/> Title       |
| <input type="checkbox"/> Property/Casualty                 | <input type="checkbox"/> Protected Cell           | <input type="checkbox"/> Other _____ |
| <input checked="" type="checkbox"/> Health                 | <input type="checkbox"/> Health (Life Supplement) |                                      |

Anticipated Effective Date: Annual 2022

#### IDENTIFICATION OF ITEM(S) TO CHANGE

Instructions to Annual Health Statement Blank, Actuarial Opinion (Actuarial Opinion Instructions):

Modify section 1A. (Definitions), of the actuarial opinion instructions to add definitions of “actuarial asset” and “actuarial liability”.

Modify sections 4 (Identification section), section 5 (Scope section), and section 7 (Opinion section) of the actuarial opinion instructions to ensure that the opinion’s prescribed wording clearly indicates that the actuary’s opinion covers actuarial assets as well as actuarial liabilities.

Modify section 9 of the actuarial opinion instructions to ensure that guidance related to the type of opinion rendered by an appointed actuary covers both actuarial assets and actuarial liabilities.

#### REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE\*\*

The purpose of this proposal is to revise the language in sections 1A 4, 5, 7 and 9 of the orange blank annual statement instructions related to the actuarial opinion to ensure that all items (actuarial assets and liabilities) within the scope of the statement of actuarial opinion are treated consistently. Currently, reserves and liabilities are referenced in sections 1A 4, 5, 7 and 9 of the orange blank annual statement instructions. Since actuarial assets are included in the scope of the actuarial opinion, it is important that these instructions provide guidance to appointed actuaries that apply to all actuarial items, assets as well as liabilities, included in the scope of the actuarial opinion.

#### NAIC STAFF COMMENTS

Comment on Effective Reporting Date: \_\_\_\_\_

Other Comments:

\*\* This section must be completed on all forms.

Revised 7/18/2018

ACTUARIAL OPINION



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1A. Definitions

“Insurer” means an entity authorized to write accident and health contracts under the laws of any state and which files on the Health Blank.

“Actuarial Memorandum” means a document or other presentation prepared as a formal means of conveying the appointed actuary’s professional conclusions and recommendations, of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the appointed actuary’s opinion or findings and that documents the analysis underlying the opinion. The expected content of the memorandum is further described in Section 1C.

“Actuarial asset” means an actuarial item presented as an asset in the annual statement and included in the scope of the Statement of Actuarial Opinion.

“Actuarial liability” means an actuarial item presented as a liability in the annual statement and included in the scope of the Statement of Actuarial Opinion.



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4. The IDENTIFICATION section should specifically indicate the appointed actuary’s relationship to the company, qualifications for acting as appointed actuary, date of appointment, and should specify that the appointment was made by the Board of Directors, or its equivalent or by a committee of the Board.

A person who is not a Member of the American Academy of Actuaries but is recognized by the Academy as qualified must attach, each year, a copy of the approval letter from the Academy.

This section should contain only one of the following:

For a Member of the American Academy of Actuaries who is an employee of the organization, the opening paragraph of the opinion should contain all the following sentences if the appointed actuary is using the prescribed wording:

“I, (name and title of actuary), am an employee of (named organization) and a member of the American Academy of Actuaries. I was appointed on [date of appointment] in accordance with the requirements of the annual statement instructions. I meet the Academy qualification standards for rendering the opinion.”

For a consultant who is a Member of the American Academy of Actuaries, the opening paragraph of the opinion should contain all the following sentences if the appointed actuary is using the prescribed wording:

“I, (name and title of consultant), am associated with the firm of (name of firm). I am a member of the American Academy of Actuaries and have been retained by the (name of organization) to render an opinion with regard to loss reserves, actuarial liabilities, actuarial assets and related items. I was appointed on [date of appointment] in accordance with the requirements of the annual statement instructions. I meet the Academy qualification standards for rendering the opinion.”

For an employee other than a member of the American Academy of Actuaries, the opening paragraph of the opinion should contain both the following sentences if the appointed actuary is using the prescribed wording:

“I, (name and title), am an employee of (name of organization) and am recognized by the American Academy of Actuaries as qualified to perform actuarial valuations for organizations of this kind. I was appointed on [date of appointment] in accordance with the requirements of the annual statement instructions.”

For a consultant other than a member of the American Academy of Actuaries, the opening paragraph of the opinion should contain all the following sentences if the appointed actuary is using the prescribed wording:

“I, (name and title of consultant), am associated with the firm of (name of firm). I am recognized by the American Academy of Actuaries as qualified to perform actuarial valuations for organizations of this kind and have been retained by the (name of organization) with regard to such valuation. I was appointed on [date of appointment] in accordance with the requirements of the annual statement instructions.”

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5. The SCOPE section should contain only the following statement (including all specified lines even if the value is zero) if the appointed actuary is using the prescribed wording:

“I have examined the assumptions and methods used in determining loss reserves, actuarial liabilities, actuarial assets, and related items listed below, as shown in the annual statement of the organization as prepared for filing with state regulatory officials, as of December 31, 20\_\_.

- A. Claims unpaid (Page 3, Line 1);
- B. Accrued medical incentive pool and bonus payments (Page 3, Line 2);
- C. Unpaid claims adjustment expenses (Page 3, Line 3);
- D. Aggregate health policy reserves (Page 3, Line 4) including unearned premium reserves, premium deficiency reserves and additional policy reserves from the Underwriting and Investment Exhibit, Part 2D;
- E. Aggregate life policy reserves (Page 3, Line 5);
- F. Property/casualty unearned premium reserves (Page 3, Line 6);
- G. Aggregate health claim reserves (Page 3, Line 7);
- H. Any other loss reserves, actuarial liabilities, or related items presented as liabilities in the annual statement; and
- I. Specified actuarial items presented as assets in the annual statement.”

Items H and I are not intended to include the liabilities and assets associated with benefits provided to employees of the organization, or the organization’s directors or trustees, except to the extent that such benefits are provided through insurance or annuity contracts of a type that the organization is authorized to issue in the ordinary course of its business. For example, liabilities for employee pensions generally would not be within the scope of the Actuarial Opinion. However, if the organization is licensed to issue life insurance, then liabilities arising from life insurance policies or certificates issued by the organization to its employees would be within the scope of the Actuarial Opinion just as would the comparable liabilities arising from policies or contracts issued to unrelated parties.

If there are any items included in items H or I, they should be listed using appropriate annual statement captions and line references. The phrase “Not Applicable” should be placed under the item description for either item H or I if there is nothing to be listed. Any listings under items H and I do not constitute either “additional wording” or “revised wording” for purposes of the Table of Key Indicators.

If for either item H or item I there is more than one line item to be listed, the line items under the general H or I heading should be numbered sequentially.

The amounts of any assets listed under item I should be the gross amount of the asset (Page 2, Column 1 of the Annual Statement), not the net admitted amount (Page 2, Column 3).

For items A through G listed in the SCOPE section and each sub-line for items H and I, the item label should be followed by the amount of that item as reported in the annual statement. These stated amounts do not constitute either “additional wording” or “revised wording” for purposes of the Table of Key Indicators. Where the phrase “Not Applicable” is used in item H or item I, it means that there are no such items to be included in the Opinion, so there should be no value shown as a stated amount.

For example:

I. Specified actuarial items presented as assets in the annual statement, as follows:

1. Accrued retrospective premiums (Page 2, line 15.3, column 1)



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7. The OPINION section should include only the following statement if the appointed actuary is using the prescribed wording:

“In my opinion, the amounts carried in the balance sheet on account of the items identified above:

- A. Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;
- B. Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- C. Meet the requirements of the Insurance Laws and regulations of the state of [state of domicile] and:

(Use of one the following phrases, as appropriate, is considered prescribed wording. Replacing “[list states]” with an actual list of states in parentheses is also considered prescribed wording.)

the loss reserves and actuarial liabilities are at least as great as the minimum aggregate amounts required by any state,

or

the loss reserves and actuarial liabilities are at least as great as the minimum aggregate amounts required by any state with the exception of the following states [list states]. For each listed state a separate statement of actuarial opinion was submitted to that state that complies with the requirements of that state;

- D. Make a good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements;
- E. Make a reasonable provision for all actuarial assets of the organization under the terms of its contracts and agreements;
- F. On a combined basis, make a reasonable provision for all actuarial assets and actuarial liabilities of the organization under moderately adverse conditions;
- GE. Are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end; and
- HF. Include appropriate provision for all actuarial items that ought to be established.

The Underwriting and Investment Exhibit, Part 2B was reviewed for reasonableness and consistency with the applicable Actuarial Standards of Practice.

Actuarial methods, considerations, and analyses used in forming my opinion conform to the relevant Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis of this statement of opinion.”


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- 9. If the appointed actuary is able to form an opinion that is not qualified, adverse or inconclusive as those terms are defined below, he or she should issue a statement of unqualified opinion. If the opinion is adverse, qualified or inconclusive, the appointed actuary should issue an adverse, qualified or inconclusive opinion explicitly stating the reason(s) for such opinion. In all circumstances the category of opinion should be explicitly identified in the TABLE of KEY INDICATORS section of the Actuarial Opinion.

An adverse opinion is an actuarial opinion in which the appointed actuary determines that the reserves and liabilities are not good and sufficient, actuarial assets are not reasonable, or the actuarial assets and actuarial liabilities on a combined basis are not reasonable under moderately adverse conditions. (An adverse opinion does not meet one or more of items D, E, or F of Section 7.)

When, in the actuary’s opinion, the reserves or actuarial assets included in the scope of the opinion for a certain item or items are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on those items, the actuary should issue a qualified opinion. Such a qualified opinion should state whether the stated reserve amount makes a good and sufficient provision for the actuarial liabilities associated with the specified reserves, actuarial assets are reasonable, and combined actuarial assets and actuarial liabilities are reasonable under moderately adverse conditions except for the item or items to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material. (A qualified opinion does not meet one or more of the items A, B, C or HF of Section 7.)

The actuary’s ability to give an opinion is dependent upon data, analyses, assumptions and related information that are sufficient to support a conclusion. If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions or related information, then the actuary should issue an inconclusive opinion. An inconclusive opinion shall include a description of the reasons a conclusion could not be reached.


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