

IDAPA 18 – IDAHO DEPARTMENT OF INSURANCE

Company Activities

18.07.09 – Life And Health Actuarial Opinion And Memorandum Rule

Who does this rule apply to?

This rule applies to all life insurance companies and fraternal benefit societies and those authorized to reinsure life insurance, annuities, or accident and health insurance in the state of Idaho.

What is the purpose of this rule?

The purpose of this rule allows the appointed actuary to use professional judgement and opinion in asset analysis and supporting communication. Also, the rule provides the Director with authority to specify methods and assumptions of actuarial analysis in order to render adequacy of reserves and related items.

What is the legal authority for the agency to promulgate this rule?

This rule implements the following statute passed by the Idaho Legislature:

Insurance -

Department of Insurance:

- [41-02, et seq., Idaho Code](#) – The Department of Insurance

Who do I contact for more information on this rule?

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18.07.09 – LIFE AND HEALTH ACTUARIAL OPINION AND MEMORANDUM RULE

000. LEGAL AUTHORITY.

Title 41, Chapter 2, Idaho Code.

(7-1-97)

001. TITLE AND SCOPE.

01. **Title.** IDAPA 18.07.09, “Life and Health Actuarial Opinion and Memorandum Rule.” (3-20-20)

02. **Application of Rule.** This rule applies to all life insurance companies and fraternal benefit societies doing business in this State and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities or accident and health insurance business in this State. This regulation will be applied in a manner that allows the appointed actuary to utilize their professional judgment in performing the asset analysis and developing the actuarial opinion and supporting memoranda, consistent with relevant actuarial standards of practice. However, the Director will have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the Director’s judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items. (3-20-20)

03. **Application to All Annual Statements.** This rule will be applicable to all annual statements filed with the office of the Director after the effective date. A statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with Section 022 of this chapter, and a memorandum in support thereof in accordance with Section 023 of this chapter, will be needed each year. (3-20-20)

04. **Purpose.** The purpose of this rule is to prescribe: (3-30-07)

a. Guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with Section 41-612(12), Idaho Code, and for memoranda in support thereof; (7-1-97)

b. Rules applicable to the appointment of an appointed actuary; and (3-30-07)

c. Guidelines as to the meaning of adequacy of reserves. (3-30-07)

002. -- 009. (RESERVED)

010. DEFINITIONS.

01. **Actuarial Opinion.** The opinion of an Appointed Actuary regarding the adequacy of the reserves and related actuarial items based on an asset adequacy test in accordance with Section 022 of this chapter and with presently accepted Actuarial Standards. (3-30-07)

02. **Actuarial Standards Board.** The board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice. (7-1-97)

03. **Asset Adequacy Analysis.** An analysis that meets the standards and other requirements referred to in Subsection 021.04 of this chapter. It may take many forms, including, but not limited to, cash flow testing, sensitivity testing or applications of risk theory. (3-30-07)

04. **Company.** A life insurance company, fraternal benefit society or reinsurer subject to the provisions of this rule. (7-1-97)

011. -- 020. (RESERVED)

021. GENERAL REQUIREMENTS.

01. **Submission of Statement of Actuarial Opinion.** (7-1-97)

a. There is to be included on or attached to Page one (1) of the annual statement for each year beginning with the year in which this rule becomes effective the statement of an appointed actuary, entitled “Statement of Actuarial Opinion,” setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with Section 022 of this chapter. (3-30-07)

b. Upon written request by the company, the Director may grant an extension of the date for submission of the statement of actuarial opinion. (7-1-97)

- 02. Qualified Actuary.** An individual who: (7-1-97)
- a.** Is a member in good standing of the American Academy of Actuaries; and (7-1-97)
 - b.** Is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements; and (7-1-97)
 - c.** Is familiar with the valuation requirements applicable to life and health insurance companies; and (7-1-97)
 - d.** Has not been found by the Director (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have; (3-30-07)
 - i.** Violated any provision of, or any obligation imposed by any law in the course of their dealings as a qualified actuary; or (7-1-97)
 - ii.** Been found guilty of fraudulent or dishonest practices; or (7-1-97)
 - iii.** Demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary; or (7-1-97)
 - e.** Submitted to the Director during the past five (5) years, pursuant to this rule, an actuarial opinion or memorandum that the Director rejected because it did not meet the provisions including standards set by the Actuarial Standards Board; or (7-1-97)
 - f.** Resigned or been removed as an actuary within the past five (5) years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards; and (7-1-97)
 - g.** Has not failed to notify the Director of any action taken by any Director of any other state similar to that under Subsection 021.02.d. of this chapter. (3-30-07)
- 03. Appointed Actuary.** A qualified actuary who is appointed or retained to prepare the Statement of Actuarial Opinion prescribed by this rule; either directly by or by the authority of the board of directors through an executive officer of the company. The company will give the Director timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm) and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and will state in such notice that the person meets the requirements set forth in Subsection 021.02 of this chapter. Once notice is furnished, no further notice is prescribed with respect to this person, provided that the company will give the Director timely written notice in the event the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements set forth in Subsection 021.02 of this chapter. If any person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice will so state and give the reasons for replacement. (3-20-20)
- 04. Standards for Asset Adequacy Analysis.** The asset adequacy analysis prescribed by this rule: (3-20-20)
- a.** Will conform to the Standards of Practice as promulgated by the Actuarial Standards Board and on any additional standards under this rule, which standards are to form the basis of the statement of actuarial opinion in accordance with Section 021 of this chapter; and (3-30-07)
 - b.** Will be based on methods of analysis as are deemed appropriate for such purposes by the Actuarial Standards Board. (7-1-97)
- 05. Liabilities to Be Covered.** (7-1-97)

a. Under authority of Section 41-612(12), Idaho Code, the statement of actuarial opinion will apply to all in force business on the statement date regardless of when or where issued, e.g., Aggregate Reserve for Life Contracts, Aggregate Reserve for Accident and Health Contracts, reserves for Deposit Type Contracts, and Claims for Life and Health Contracts as reported in Exhibits of the annual statement, and equivalent items in the separate account statement or statements of the annual statement. (3-30-07)

b. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods set forth in Section 41-612(12), Idaho Code, the company will establish such additional reserve. (7-1-97)

c. Additional reserves established under Subsections 021.05.a. or 021.05.b. of this chapter and deemed not necessary in subsequent years may be released. Any amounts released needs to be disclosed in the actuarial opinion for the applicable year. The release of such reserves would not be deemed an adoption of a lower standard of valuation. (3-20-20)

022. STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS.

01. General Description. The statement of actuarial opinion submitted in accordance with this section will consist of; (3-30-07)

a. A paragraph identifying the appointed actuary and qualifications (see Subsection 022.02.a. of this chapter); (3-30-07)

b. A scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a tabulation delineating the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, (see Subsection 022.02.b. of this chapter) and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed; (3-30-07)

c. A reliance paragraph describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures or assumptions, (e.g., anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios (see Subsection 022.02.c. of this chapter), supported by a statement of each such expert in the form prescribed by Subsection 022.05 of this chapter; and (3-30-07)

d. An opinion paragraph expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities (see Subsection 022.02.f. of this chapter). (3-30-07)

e. One (1) or more additional paragraphs will be needed in individual company cases as follows; (3-30-07)

i. If the appointed actuary considers it necessary to state a qualification of his opinion; (7-1-97)

ii. If the appointed actuary needs to disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion; (3-20-20)

iii. If the appointed actuary needs to disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or (3-20-20)

iv. If the appointed actuary chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion. (7-1-97)

02. Recommended Language. The Department has adopted recommended language which can be obtained on the Department's website and are to be included in the statement of actuarial opinion in accordance with this section. Language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses their professional judgment. However, in any event the opinion will

retain all pertinent aspects of the language provided. (3-20-20)

03. Assumptions for New Issues. The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this Section 022 of this chapter. (3-30-07)

04. Adverse Opinions. If the appointed actuary is unable to form an opinion, then they will refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then they will issue an adverse or qualified actuarial opinion explicitly stating the reason(s) for such opinion. This statement should follow the scope paragraph and precede the opinion paragraph. (7-1-97)

05. Reliance on Data Furnished by Other Persons. If the appointed actuary relies on the certification of others on matters concerning the accuracy or completeness of any data underlying the actuarial opinion, or the appropriateness of any other information used by the appointed actuary in forming the actuarial opinion, the actuarial opinion should so indicate the persons the actuary is relying upon and a precise identification of the items subject to reliance. In addition, the persons on whom the appointed actuary relies will provide a certification that precisely identifies the items on which the person is providing information and a statement as to the accuracy, completeness or reasonableness, as applicable, of the items. This certification will include the signature, title, company, address and telephone number of the person rendering the certification, as well as the date on which it is signed. (3-30-07)

023. ALTERNATE OPTION.

01. Standard Valuation Law. The Standard Valuation Law gives the Director broad authority to accept the valuation of a foreign insurer when that valuation meets the requirements applicable to a company domiciled in this state in the aggregate. As an alternative to the requirements of part (c) in Paragraph 022.02.f. of this chapter, the Director may make one (1) or more of the following additional approaches available to the opining actuary: (3-30-07)

a. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and the formal written standards and conditions of this state for filing an opinion based on the law of the state of domicile.” If the Director chooses to allow this alternative, a formal written list of standards and conditions will be made available. If a company chooses to use this alternative, the standards and conditions in effect on July 1 of a calendar year will apply to statements for that calendar year, and they will remain in effect until they are revised or revoked. If no list is available, this alternative is not available. (3-30-07)

b. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have verified that the company's request to file an opinion based on the law of the state of domicile has been approved and that any conditions prescribed by the Director for approval of that request have been met.” If the Director chooses to allow this alternative, a formal written statement of such allowance will be issued no later than March 31 of the year it is first effective. It will remain valid until rescinded or modified by the Director. The rescission or modifications will be issued no later than March 31 of the year they are first effective. Subsequent to that statement being issued, if a company chooses to use this alternative, the company will file a request to do so, along with justification for its use, no later than April 30 of the year of the opinion to be filed. The request will be deemed approved on October 1 of that year if the Director has not denied the request by that date. (3-20-20)

c. A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have submitted the prescribed comparison as specified by this state.” (3-20-20)

i. If the Director chooses to allow this alternative, a formal written list of products (to be added to the table in Item (ii) below) for which the prescribed comparison will be provided will be published. If a company chooses to use this alternative, the list in effect on July 1 of a calendar year will apply to statements for that calendar year, and it will remain in effect until it is revised or revoked. If no list is available, this alternative is not available. (3-20-20)

ii. If a company desires to use this alternative, the appointed actuary will provide a comparison of the gross nationwide reserves held to the gross nationwide reserves that would be held under NAIC codification

standards. Gross nationwide reserves are the total reserves calculated for the total company in force business directly sold and assumed, indifferent to the state in which the risk resides, without reduction for reinsurance ceded. The information provided will be at least:

(1) Product Type	(2) Death Benefit or Account Value	(3) Reserves Held	(4) Codification Reserves	(5) Codification Standard

(3-30-07)

iii. The information listed will include all products identified by either the state of filing or any other states subscribing to this alternative. (3-30-07)

iv. If there is no codification standard for the type of product or risk in force or if the codification standard does not directly address the type of product or risk in force, the appointed actuary will provide detailed disclosure of the specific method and assumptions used in determining the reserves held. (3-30-07)

v. The comparison provided by the company is to be kept confidential to the same extent and under the same conditions as the actuarial memorandum. (3-30-07)

d. Notwithstanding the above, the Director may reject an opinion based on the laws and regulations of the state of domicile and require an opinion based on the laws of this state. If a company is unable to provide the opinion within sixty (60) days of the request or such other period of time determined by the Director after consultation with the company, the Director may contract with an independent actuary at the company's expense to prepare and file the opinion. (3-30-07)

024. DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS AND REGULATORY ASSET ADEQUACY ISSUES SUMMARY.

01. General. (7-1-97)

a. In accordance with Section 41-612(12), Idaho Code, the appointed actuary will prepare a memorandum to the company describing the analysis done in support of their opinion regarding the reserves. The memorandum will be made available for examination by the Director upon his request but will be returned to the company after such examination and cannot be considered a record of the insurance department or subject to automatic filing with the Director. (4-7-11)

b. In preparing the memorandum, the appointed actuary may rely on, and include as a part of their own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of Subsection 021.02 of this chapter, with respect to the areas covered in such memoranda, and so state in their memoranda. (3-30-07)

c. If the Director requests a memorandum and no such memorandum exists or if the Director finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this Rule, the Director may designate a qualified actuary to review the opinion and prepare such supporting memorandum as is needed for review. The reasonable and necessary expense of the independent review will be paid by the company but will be directed and controlled by the Director. (3-20-20)

d. The reviewing actuary will have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary will be retained by the Director; provided, however, that any information provided by the company to the reviewing actuary and included in the work papers will be considered as examination workpapers and will be kept confidential to the same extent as is prescribed by Section 41-227, Idaho Code. The reviewing actuary cannot be an employee of a consulting firm involved with the

preparation of any prior memorandum or opinion for the insurer pursuant to this rule for any one of the current year or the preceding three (3) years. (7-1-97)

e. In accordance with Section 41-612(12), Idaho Code, the appointed actuary will prepare a regulatory asset adequacy issues summary, the contents of which are specified in Subsection 024.03 of this chapter. The regulatory asset adequacy issues summary will be submitted no later than March 15 of the year following the year for which a statement of actuarial opinion based on asset adequacy is mandatory. The regulatory asset adequacy issues summary will be maintained as confidential and not subject to public disclosure by the director in accordance with Section 41-612(12), Idaho Code, and Section 74-107(5) of the Idaho Public Records Act. (3-20-20)

f. In accordance with Section 41-612(12)(d)(iv), the director will accept the regulatory asset adequacy issues summary of a foreign or alien company filed by that company with the insurance supervisory official of another state if the director determines that the summary reasonably meets the requirements applicable to a company domiciled in Idaho. Therefore, foreign or alien insurers needed to file the regulatory asset adequacy issues summary in their home state are exempt from filing in this state, except upon request of the director, provided the other state has substantially similar reporting requirements and the summary is filed with the director of the other state within the time specified. (3-20-20)

02. Details of the Memorandum Section Documenting Asset Adequacy Analysis (Section 022).
When an actuarial opinion under Section 022 of this chapter is provided, the memorandum will demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in Subsection 021.04 of this chapter and any additional standards under this rule. It will specify; (3-30-07)

- a.** For reserves; (3-30-07)
 - i.** Product descriptions including market description, underwriting and other aspects of a risk profile and the specific risks the appointed actuary deems significant; (7-1-97)
 - ii.** Source of liability in force; (7-1-97)
 - iii.** Reserve method and basis; (7-1-97)
 - iv.** Investment reserves; (7-1-97)
 - v.** Reinsurance arrangements; and (3-30-07)
 - vi.** Identification of any explicit or implied guarantees made by the general account in support of benefits provided through a separate account or under a separate account policy or contract and the methods used by the appointed actuary to provide for the guarantees in the asset adequacy analysis. (3-30-07)
- b.** Documentation of assumptions to test reserves for the following: (3-30-07)
 - i.** Lapse rates (both base and excess); (3-30-07)
 - ii.** Interest crediting rate strategy; (3-30-07)
 - iii.** Mortality; (3-30-07)
 - iv.** Policyholder dividend strategy; (3-30-07)
 - v.** Competitor or market interest rate; (3-30-07)
 - vi.** Annuitization rates; (3-30-07)
 - vii.** Commissions and expenses; and (3-30-07)
 - viii.** Morbidity. (3-30-07)

- ix. The documentation of the assumptions will be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions. (3-30-07)
- c. For assets: (7-1-97)
 - i. Portfolio descriptions, including a risk profile disclosing the quality, distribution and types of assets; (7-1-97)
 - ii. Investment and disinvestment assumptions; (7-1-97)
 - iii. Source of asset data; (7-1-97)
 - iv. Asset valuation bases. (7-1-97)
- d. Documentation of assumptions made for the following assets: (3-30-07)
 - i. Default costs; (3-30-07)
 - ii. Bond call function; (3-30-07)
 - iii. Mortgage prepayment function; (3-30-07)
 - iv. Determining market value for assets sold due to disinvestment strategy; and (3-30-07)
 - v. Determining yield on assets acquired through the investment strategy. (3-30-07)
 - vi. The documentation of the assumptions will be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions. (3-30-07)
- e. For the analysis basis: (4-7-11)
 - i. Methodology; (7-1-97)
 - ii. Rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed; (7-1-97)
 - iii. Rationale for degree of rigor in analyzing different blocks of business (include in the rationale the level of “materiality” that was used in determining how rigorously to analyze different blocks of business); (4-7-11)
 - iv. Criteria for determining asset adequacy (include in the criteria the precise basis for determining if assets are adequate to cover reserves under “moderately adverse conditions” or other conditions as specified in relevant actuarial standards of practice); (4-7-11)
 - v. Whether the impact of federal income taxes was considered and the method of treating reinsurance in the asset adequacy analysis. (4-7-11)
- f. Summary of material changes in methods, procedures, or assumptions from prior year’s asset adequacy analysis; (3-30-07)
- g. Summary of Results; (7-1-97)
- h. Conclusion(s). (7-1-97)
- i. The regulatory asset adequacy issues summary will include: (3-30-07)
 - i. Descriptions of the scenarios tested (including whether those scenarios are stochastic or

deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values will be determined by either extending the projection period until the in force and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining in force; (3-30-07)

ii. The extent to which the appointed actuary uses assumptions in the asset adequacy analysis that are materially different than the assumptions used in the previous asset adequacy analysis; (3-30-07)

iii. The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion; (3-30-07)

iv. Comments on any interim results that may be of significant concern to the appointed actuary. For example, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; (4-7-11)

v. The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested; and (3-30-07)

vi. Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including but not limited to those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis. (3-30-07)

j. The regulatory asset adequacy issues summary will contain the name of the company for which the regulatory asset adequacy issues summary is being supplied and will be signed and dated by the appointed actuary rendering the actuarial opinion. (3-30-07)

04. Conformity to Standards of Practice. The memorandum will include a statement: "Actuarial methods, considerations and analyses used in the preparation of this memorandum conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum." (7-1-97)

05. Use of Assets Supporting the Interest Maintenance Reserve and the Asset Valuation Reserve. An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, needs to be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets cannot be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support. The amount of the assets used for the AVR needs to be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets needs to be disclosed in the memorandum. (3-20-20)

06. Documentation. The appointed actuary will retain on file, for at least seven (7) years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions and the results obtained. (7-1-97)

025. -- 999. (RESERVED)

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