

December 17, 2007

**TO: CHIEF ACTUARIES OF LIFE INSURANCE COMPANIES AND  
FRATERNAL ORGANIZATIONS LICENSED IN ILLINOIS**

**FROM: BRUCE SARTAIN, FSA, MAAA  
LIFE ACTUARY  
(217) 785-0903**

**RE: COMMENTS CONCERNING (CB #2007-05):**

- **APPENDIX A-822 OF THE ACCOUNTING PRACTICES AND PROCEDURES MANUAL AND SECTION 7 ACTUARIAL OPINIONS**
- **LIFE POLICY FORM REFILINGS DUE TO MORTALITY OR INTEREST RATE CHANGES**
- **X-FACTOR ACTUARIAL OPINIONS**
- **SEPARATE ACCOUNTS FUNDING GUARANTEED MINIMUM BENEFIT ACTUARIAL OPINIONS**
- **SYNTHETIC GUARANTEED INVESTMENT CONTRACTS ACTUARIAL OPINIONS**
- **EQUITY INDEXED ANNUITY AND EQUITY INDEXED UNIVERSAL LIFE CERTIFICATIONS**
- **C-3 RBC CERTIFICATIONS**
- **REGULATORY ASSET ADEQUACY ISSUES SUMMARIES**
- **ACCIDENT AND HEALTH RESERVE STANDARDS**
- **SMALL GROUP HEALTH INSURANCE CERTIFICATIONS**
- **MEDICARE SUPPLEMENT REFUND CALCULATIONS**

1. According to the Statement of Statutory Accounting Principles (SSAP) No. 1 (7), "If a reporting entity employs accounting practices that depart from the NAIC accounting practices and procedures, disclosure of the following information about those accounting practices that affect statutory surplus of risk-based capital shall be made at the date each financial statement is presented." Per SSAP 1 (7)(c), a disclosure is required of, "The monetary effect on net income and statutory surplus of using an accounting practice which differs from NAIC statutory accounting practices and procedures."

Companies that file an actuarial opinion in accordance with 50 Ill. Adm. Code

1408.60 are not required to complete (7)(c) for the reconciliation of Appendix A-822 as it differs from 50 Ill. Adm. Code Part 1408.60, "Actuarial Opinion and Memorandum".

2. If a previously approved life policy form is refiled due to a change in mortality table/nonforfeiture interest rate (per 215 ILCS 5/229.2(4c)(j)), a revised actuarial memorandum demonstrating compliance with 215 ILCS 5/229.2 is required to be filed as well.
3. If an X-factor opinion is required per Regulation 1409, "Valuation of Life Insurance Policies Including the Use of Select Mortality Factors", a copy of the X-factor opinion shall be attached to each copy of the reserve actuarial opinion submitted with the annual statement.
4. Any insurer maintaining any separate accounts governed by Appendix A-200 of the Accounting Practices and Procedures Manual shall annually submit a Separate Accounts Funding Guaranteed Minimum Benefit Actuarial Opinion with the annual statement.
5. Any insurer issuing synthetic guaranteed investment contracts governed by Appendix A-695 of the Accounting Practices and Procedures Manual shall annually submit a Synthetic Guaranteed Investment Contracts Actuarial Opinion with the annual statement.
6. Per Actuarial Guidelines XXXV and XXXVI, for all insurers issuing equity indexed annuity or equity indexed universal life products, a "certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official." The appropriate certification shall be submitted along with the annual and quarterly statements.
7. Pursuant to the RBC C-3 Phase I and C-3 Phase II requirements found in the RBC Instructions for LR024 and Appendix 1, any Illinois domestic company required to submit actuarial certifications shall submit two copies annually. These certifications are considered confidential documents and therefore should not be sent with the annual statement, but should be stamped "confidential" and submitted in the following manner. One copy is to be included with the RBC Report to be submitted no later than March 1<sup>st</sup>. The second copy can be included with the RAAIS, submitted no later than March 15<sup>th</sup>, and shall be sent directly to:

Ms. Susan Christy  
Life Actuarial Assistant  
Illinois Department of Financial and Professional Regulation  
Division of Insurance  
320 West Washington  
Springfield, Illinois 62767-0001

8. The appointed actuaries for **Illinois domestic companies** must submit a Regulatory Asset Adequacy Issues Summary (RAAIS) that summarizes the memorandum required per 215 ILCS 5/223(1a)(A)(9). The RAAIS shall be submitted annually by March 15<sup>th</sup> of the following year. Illinois foreign companies are not required to submit an RAAIS. See below for a description of the items to be included in the RAAIS. The description has not changed from last year. Pursuant to 215 ILCS 5/223(1a)(A)(11) this RAAIS is considered a confidential document and therefore should not be sent with the annual statement, but should be stamped "confidential" and submitted directly to:

Ms. Susan Christy  
Life Actuarial Assistant  
Illinois Department of Financial and Professional Regulation  
Division of Insurance  
320 West Washington  
Springfield, Illinois 62767-0001

9. Part 2004 (Accident and Health Reserves), Section 2004.10 of the Illinois Administrative Code was amended effective November 29, 2006 to incorporate the March 2006 version of the NAIC's Accounting Practices and Procedures Manual. As before, all policies and claims incurred prior to January 1, 2002 are subject to the provisions of Part 2004. Per Section 2004.10 prior to it being amended, policies issued and claims incurred on or after January 1, 2002 and before November 29, 2006 are subject to the standards prescribed in the March 2001 APPM. Policies issued and claims incurred on or after November 29, 2006 are subject to the standards prescribed in the March 2006 APPM.
10. Companies that write small group health insurance in Illinois are required to submit by May 15 of each year a certification of compliance with the Small Employer Health Insurance Rating Act. Part 5101 of the Illinois Administrative Code is the rule to be followed in completing the certification. All certifications shall be submitted to :

Mr. Gerald Lucht  
Actuary I  
Illinois Department of Financial and Professional Regulation  
Division of Insurance  
320 West Washington  
Springfield, Illinois 62767-0001

11. Companies writing Medicare Supplement insurance in Illinois are required by Section 2008.80(b) to submit Medicare Supplement refund calculations. The calculations are due on May 31 of each year. All calculations shall be submitted to:

Mr. Gerald Lucht  
Actuary I  
Illinois Department of Financial and Professional Regulation  
Division of Insurance  
320 West Washington  
Springfield, Illinois 62767-0001

12. Please refer to this bulletin in future years unless and until another bulletin is posted. Any future bulletins that pertain to year-end issues will be posted by December 15<sup>th</sup>.

#### Details of the RA AIS

1. When an actuarial opinion based on asset adequacy analysis is provided by an Illinois domestic company, the RA AIS shall also be provided. It shall specify:
  - a. For each of the required interest rate scenarios which produce negative ending surplus values in the aggregate, the amount of additional reserve as of the valuation date which, if held, would eliminate such negative aggregate surplus values. Ending surplus values must 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 which appropriately estimates the value which can reasonably be expected to arise from the assets and liabilities remaining in force.
  - b. 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;
  - c. 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;
  - d. The number of additional interest rate scenarios tested identifying separately the number of deterministic scenarios and stochastic scenarios;
  - e. If sensitivity testing was performed, identify the assumptions tested;
  - f. Comments shall be provided on any interim results that may be of significant concern to the appointed actuary;
  - g. 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;

- h. Whether the actuary has been satisfied that all options affecting cash flows embedded in fixed income securities and equity-like features in any investments have been appropriately considered in the asset adequacy analysis.
2. The RAAIS shall contain the name of the insurance company for which the RAAIS is being supplied, and shall be signed by the appointed actuary rendering the opinion.