

January  
31, 2003

To: ALL VALUATION ACTUARIES OF LIFE INSURANCE COMPANIES AND  
FRATERNAL ORGANIZATIONS LICENSED IN ILLINOIS

From: BRUCE SARTAIN, FSA, MAAA

Re: COMMENTS CONCERNING APPENDIX A-822 OF THE ACCOUNTING PRACTICES  
AND PROCEDURES MANUAL, CONTINUOUS VS. CURTATE CARVM, X-FACTOR  
FILINGS, AND THE REGULATORY ASSET ADEQUACY ISSUES SUMMARY (CB #  
2003-01)

1. Number 7 of Statement of Statutory Accounting Principles No. 1 states, "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 or risk-based capital shall be made:". Part c of Number 7 requires a disclosure of, "The monetary effect on net income and statutory surplus of using an accounting practice which differs from NAIC statutory accounting practices and procedures." For purposes of the 12/31/02 Annual Statement we are not requiring companies to complete Number 7, Part c of the reconciliation with regard to Appendix A-822 as it differs from Illinois Regulation 1408, "Actuarial Opinion and Memorandum". This permitted practice does not extend to reporting periods ending on or after 12/31/03.
2. In Illinois Bulletin CB #99-9, dated 12/15/99, there was a statement that "continuous rather than curtate CARVM should be used on all annuities that are subject to CARVM, not just CD annuities." In the interest of uniformity, and to conform with Appendix A-820, #13 from the APPM, continuous CARVM is not a requirement for statements filed after the date of this bulletin.
3. If an X-factor opinion is required by Regulation 1409, "Valuation of Life Insurance Policies Including the Use of Select Mortality Factors", please continue to attach a copy to each copy of the reserve actuarial opinion submitted with the annual statement.
4. We are again requesting that the appointed actuaries for **Illinois domestic companies** submit a Regulatory Asset Adequacy Issues Summary (RAAIS) to us by March 15, 2003. Illinois foreign companies are not required to submit an RAAIS. See the attached document for a description of the items to be included in the RAAIS. The description has not changed from past years. This RAAIS is considered a confidential document by our Department, and will be destroyed each year upon receipt and review of the following year's RAAIS. Because it is considered confidential, the RAAIS 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 Insurance  
320 West Washington  
Springfield, Illinois 62767-0001

5. This bulletin, as well as any future life actuarial bulletins, will be posted on our website at [insurance.illinois.gov](http://insurance.illinois.gov), under "Company Information". Future bulletins will not be mailed, however all attempts will be made to post them on our website by October or November.

### **Details of the Regulatory Asset Adequacy Issues Summary**

1. When an actuarial opinion under Section 8 is provided, the regulatory asset adequacy issues summary shall also be provided. It shall specify:
  1. For each of the required interest rate scenarios which produce negative ending surplus values in the aggregate as defined in Section 10.A, 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.
  2. 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. 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;
  4. The number of additional interest rate scenarios tested identifying separately the number of deterministic scenarios and stochastic scenarios;
  5. If sensitivity testing was performed, identify the assumptions tested;
  6. Comments shall be provided on any interim results that may be of significant concern to the appointed actuary;
  7. 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;
  8. 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 regulatory asset adequacy issues summary shall contain the name of the insurance company for which the regulatory asset adequacy issues summary is being supplied and shall be signed by the appointed actuary rendering the opinion.