

November
26, 2003

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

From: BRUCE SARTAIN, FSA, MAAA
(217) 785-0903

Re: COMMENTS CONCERNING APPENDIX A-822 OF THE ACCOUNTING
PRACTICES AND PROCEDURES MANUAL, ACTUARIAL OPINIONS, X-FACTOR
FILINGS, AND THE REGULATORY ASSET ADEQUACY ISSUES SUMMARY (CB
2003-07)

1. Per Statement of Statutory Accounting Principles 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 or risk-based capital shall be made." Per (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."

For purposes of the 12/31/03 Annual Statement, companies are not required to complete (7)(c) of the reconciliation for 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 12/31/04.

2. Section 4.3 of Actuarial Standard of Practice (ASOP) No. 22 relates to, "Reliance on Others for Data, Projections, and Supporting Analysis." Per that section, "When practicable, the actuary should review the data, projections, and supporting analysis for reasonableness and consistency, and disclose such a review." Section 5.3 of ASOP No. 23 includes analogous language, though disclosure of the data review is not necessarily required.

We are requesting that both Section 7 and Section 8 opinions include an explicit statement that any relied upon data, projections, or supporting analysis were reviewed for reasonableness and consistency. If such a review was not done because it was not practicable, that should be disclosed 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", please 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, 2004. 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 past years. This RAAIS is considered a

confidential document by our Department, 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 Insurance
320 West Washington
Springfield, Illinois 62767-0001

5. As a reminder, this and any future life actuarial bulletins will not be mailed. Our intention is to post future bulletins on this website in 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.