November 22, 2005

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

FROM: BRUCE SARTAIN, FSA, MAAA

(217) 785-0903

RE: COMMENTS CONCERNING (CB #2005-05):

APPENDIX A-822 OF THE ACCOUNTING PRACTICES AND PROCEDURES MANUAL

ACTUARIAL OPINIONS

STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

CREDIT LIFE MINIMUM RESERVE STANDARDS

X-FACTOR FILINGS

EQUITY INDEXED ANNUITY AND EQUITY INDEXED UNIVERSAL LIFE CERTIFICATIONS

THE REGULATORY ASSET ADEQUACY ISSUES SUMMARY

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."

   For purposes of the 12/31/05 Annual Statement, companies are not required to complete (7)(c) of the reconciliation of 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 12/31/06. 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 by the appointed actuary. If such a review was not done because it was not practicable, that should be disclosed as well.

1. The Annuity Filing Checklist for Companies should be submitted with all annuity base policy form filings. The checklist should also be submitted with any annuity rider filings that require compliance with 215 ILCS 5/229.4a. The checklist can be found on our website, insurance.illinois.gov. Click on "Industry", "Regulatory Filings", then scroll down to "Annuity Filing Checklist". Please check the website for the most current version of the checklist before submitting.

As a reminder, 215 ILCS 5/229.4 sunsets on 7/1/06. A policy form filed and approved under 215 ILCS 5/229.4 is not considered compliant under 215 ILCS 5/229.4a, even if the minimum guaranteed nonforfeiture interest rate is 3%, until:

a) the policy form has been refiled with appropriate revisions;

b) an actuarial memorandum including a description of the methodology used to determine the minimum nonforfeiture interest rate has been submitted; and

c) the company has received approval from the Department of Insurance.

1. 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)), we are requesting a revised actuarial memorandum demonstrating compliance with 215 ILCS 5/229.2 be filed as well.

1. 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.
2. With regard to credit life, Illinois minimum reserve standards are the 2001 CSO Male Composite Ultimate Table, and dynamic interest rates for the interest rate assumption. Please note that the minimum standard for mortality has changed to coincide with the requirements in Appendix A-818 of the Accounting Practices and Procedures Manual. All credit life policies sold on or after January 1, 2005 will be subject to the new mortality table.

1. 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."

We are requesting that the appointed actuaries for **Illinois domestic companies** issuing equity indexed annuities or equity indexed universal life products submit the appropriate certification along with the annual and quarterly statements and also submit a second copy directly to:

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

2. We request the appointed actuaries for **Illinois domestic companies** submit a Regulatory Asset Adequacy Issues Summary (RAAIS) to us by March 15, 2006. 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 materially 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 Financial and Professional Regulation
Department of Insurance
320 West Washington
Springfield Illinois 62767-0001

1. 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 November.

Details of the RAAIS

1. When an actuarial opinion based on asset adequacy analysis is provided by an Illinois domestic company, the RAAIS shall also be provided.

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.

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;

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;

The number of additional interest rate scenarios tested identifying separately the number of deterministic scenarios and stochastic scenarios;

If sensitivity testing was performed, identify the assumptions tested;

Comments shall be provided on any interim results that may be of significant concern to the appointed actuary;

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;

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.

1. 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.