



# AMERICAN ACADEMY *of* ACTUARIES

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August 29, 2001

Norris Clark  
Chair, Statutory Accounting Principles Working Group  
National Association of Insurance Commissioners  
2301 McGee, Suite 800  
Kansas City, Missouri 64108-2604

RE: Comments on Items Discussed at the June 2001 SAPWG Meeting

Dear Mr. Clark:

The Health Practice Financial Reporting Committee (HPFRC) of the American Academy of Actuaries<sup>1</sup> was formed earlier this year and charged with the responsibility on behalf of the actuarial profession for commenting on health insurance financial reporting issues.

We wish to comment on some of the items discussed by the Statutory Accounting Principles Working Group at its June 2001 meeting.

## **#2001-22 (Conflicting References)**

In responding to this issue, the Working Group has proposed an amendment to paragraph 37 of SSAP No. 54 (Individual and Group Accident & Health Contracts). We have a concern with both the proposed amendment and the paragraph as it currently reads, and hence we propose that this paragraph instead be amended as follows:

“This statement incorporates the requirements of Appendices A-010, A-225, A-641, A-820, A-822 (as applicable), and the Actuarial Standards Board *Actuarial Standards of Practice*, and the actuarial guidelines found in Appendix C of this manual (as applicable).”

We are aware that our proposal would eliminate the current linkage between this paragraph of SSAP No. 54 and the corresponding paragraphs of SSAP No. 51 and SSAP No. 52. However, we believe that this is fully justified by the following observation: all writers of SSAP No. 51 and SSAP No. 52 contracts are life insurers<sup>2</sup>, but not all writers of SSAP No. 54 contracts are life insurers.

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<sup>1</sup> The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

<sup>2</sup> Throughout, by “life insurers” we mean to include fraternal benefit societies.

Appendix A-822 presents the asset adequacy analysis requirements found in the NAIC Actuarial Opinion and Memorandum Model Regulation, which implements a specific section of the NAIC Standard Valuation Model Law, which applies only to life insurers. Consequently, companies other than life insurers that write accident & health contracts are not currently subject to asset adequacy analysis requirements, either by law and/or regulation or by the Actuarial Standards of Practice.

The NAIC's Accident & Health Working Group has recently initiated a project to review the existing actuarial certification standards for other writers of accident & health contracts. As part of their charge, they will be considering whether the current actuarial certification standards for HMOs and HMDIs should be rewritten so as to include some form of asset adequacy analysis requirement.

We do not believe that it was the intent of codification to implicitly subject companies other than life insurers to asset adequacy analysis requirements. Thus, we believe that the current reference to Appendix A-822 is inadvertent insofar as companies other than life insurers as concerned. This situation should be resolved, either in the manner suggested above (the insertion of "as applicable" after the reference to Appendix A-822), or by adding a new introductory paragraph to Appendix A-822 in order to clarify that it applies only to life insurers<sup>3</sup>. Further changes to this paragraph may be required at some future point depending on the outcome of the Accident & Health Working Group's project; however, in the interim we would ask that you make this nonsubstantive change for purposes of clarity.

Similarly, an inspection of Appendix C reveals that the overwhelming majority of the actuarial guidelines contained therein are interpretations of the NAIC Standard Valuation Model Law and/or other NAIC Model Laws applicable only to life insurers, and almost none of them have any pertinence to accident & health contracts. Thus, while the proposed clause "...and the actuarial guidelines found in Appendix C of this manual" is arguably unnecessary with respect to SSAP No. 54, we have no objection to its inclusion so long as the postscript "(as applicable)" is added to reinforce the fact that not all writers of accident & health contracts are subject to those guidelines.

The exact same concerns also arise in paragraph 11 of SSAP No. 54. For the reasons articulated above, we would ask that this paragraph also be modified to read as follows:

"11. The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of Appendices A-010, A-641, A-820 and A-822 (as applicable) and the actuarial guidelines found in Appendix C of this manual(as applicable). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board."

**#2001-24 (Are Certain Reserves Required or Suggested)**

**#2001-15 (The Term "Asset Liability Matching" is Not Defined)**

Taken together, the Working Group's simultaneous recommendations on these two items would amend paragraph 25 of SSAP No. 54 to read as follows:

"Additional actuarial liabilities are ~~commonly held~~ required for such items as:

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<sup>3</sup> Such an introductory paragraph could read as follows, using language modeled after that found in the first paragraph of Section 3 of the Actuarial Opinion and Memorandum Regulation:

"This Appendix shall apply to all life insurance companies and fraternal benefit societies authorized to write and/or reinsure life insurance, annuities or accident and health insurance business."

- a. Surrender values in excess of reserves otherwise required or carried;
- b. Additional reserves required based on ~~cash flow testing and/or asset/liability matching requirements~~ asset adequacy analysis; and
- c. Additional reserves for policies which contain conversion privileges or future contingent benefits.”

We support the use of the phrase “asset adequacy analysis” in lieu of the less formal “cash flow testing and/or asset/liability matching requirements”. However, we believe that the replacement of “commonly held” with “required” is inappropriate and should not be made for two reasons.

First, as observed above, not all writers of accident & health contracts are currently intended to be subject to asset adequacy analysis requirements. Second, while some forms of actuarial certifications specify additional identifiable liabilities for the items mentioned in this paragraph, others specify a gross premium valuation approach, in which these same items would be considered by the actuary in setting the total liability but would not be separately booked liabilities. If the actuary has considered these issues in establishing the total liability via a gross premium valuation, then it would be redundant to require that a separate liability be booked.

For these reasons, we oppose the substitution of “required for” for “commonly held”, and we would suggest that the phrase “are commonly held” be replaced with “may be necessary”.

#### **#2001-11 (SSAP No. 55 – Pre-Certified Claims on Accident & Health Contracts)**

We understand that the Working Group has since announced its intent to withdraw its exposed conclusion on this item. Thus, we see no purpose in commenting at this time, although we would plan on commenting were this issue to arise again.

Thank you for the opportunity to comment on these issues. If you have any questions regarding these comments, please contact the Academy’s Health Policy Analyst, Holly Kwiatkowski, at 202.785.7871.

Sincerely yours,



Darrell D. Knapp, FSA, MAAA  
Chair, AAA Health Practice Financial Reporting Committee

Cc: Julia Philips, Chair, NAIC Accident & Health Working Group  
Leslie Jones, Chair, NAIC Accident & Health Working Group’s Subteam on HMO/HMDI Reserves