

AMERICAN ACADEMY *of* ACTUARIES

August 24, 2001

Norris Clark
Chairperson, Emerging Accounting Issues Working Group
National Association of Insurance Commissioners
300 S. Spring St., 13th Fl.
Los Angeles, CA 90013

Re: Comment on INT 01-26: SSAP No. 51 and Reserve Minimum Required

Dear Mr. Clark:

The American Academy of Actuaries' Committee on Life Insurance Financial Reporting (COLIFR) understands that at the 2001 Summer NAIC meeting, the Emerging Accounting Issues Working Group reached a tentative consensus concerning SSAP No. 1 and No. 51. We understand that disclosure would be required under paragraph 7 of SSAP No. 1 and Appendix 205 if a company establishes a reserve in excess of the reserve required by SSAP No. 51 and Appendix A-820. We also understand that such disclosure would be required whether the higher-than-minimum standard reserve held was to comply with a particular state's requirement or if voluntarily established by the company. The working group's thoughts are documented in Interpretation (INT) 01-26.

COLIFR respectfully disagrees with the working group's tentative consensus for the reasons stated in the following paragraphs.

We believe that Appendix A-820 establishes minimum reserves standards and does not require reserves to be calculated using specific mortality, interest, and reserve methodology. Reserves in excess of minimum standards meet the requirements of SSAP No. 51 and Appendix A-820 and therefore should not be categorized as accounting practices that depart from the NAIC accounting practices and procedures. Reserves should be established based on the particular circumstances of the company. Amounts held in excess of minimum reserve standards are not necessarily indicative of amounts held in excess of codification requirements.

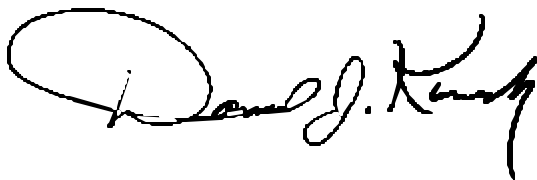
Requiring a company to disclose reserve amounts held in excess of minimum reserve standards would necessitate a company to calculate reserves under two different bases, the current reserve basis and the minimum reserve basis defined in SSAP No. 51 and Appendix A-820. The expense associated with the dual valuation could be material for many companies.

We also believe that many companies have established more conservative reserve standards than required by Appendix A-820 (for certain blocks of business) in order to avoid the cost of buying or building and maintaining a valuation system that would be needed to calculate reserves according to minimum standards. The dual valuation requirement will likely result in many companies lowering currently held reserve amounts to minimum standards.

Finally, COLIFR believes that the proposed application of the disclosure requirement outlined above is not required under statutory laws and regulations. Benefits of the proposal are far exceeded by the additional costs of compliance. Since solvency is the main emphasis of statutory reporting, we believe that adding disclosure of reserve amounts held in excess of minimum standards adds little, if anything, to the regulators' ability to monitor for solvency. Also, the application of this disclosure requirement to reserves in excess of minimum standards may lead to many companies decreasing current reserve levels or potentially ignoring the disclosure requirement.

We would be happy to answer any questions you may have regarding our comments. We also would like to offer any additional help the working group may need regarding this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel J. Kunesh". The signature is fluid and cursive, with a large initial "D" and "K".

Daniel J. Kunesh
Chairperson, Committee on Life Insurance Financial Reporting
American Academy of Actuaries

cc: Jane Kipper, David Christensen, Teresa Lintz

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