

Minnesota Attorney General: Administrative Rules Proceedings

Copyright Notice:

This material may be protected by copyright law (U.S. Code, Title 17). Researchers are liable for any infringement. For more information, visit www.mnhs.org/copyright.

Version 3
August 20, 2018

AVK
12-10-92

RULE REVIEW CHECKLIST

File No. 1980
DATE RECEIVED 12-10-92
REVIEW DATE ~~12-19-92~~ 12-21-92
DUE DATE 12-24-92
(DIS)APPROVED 12-23-92
WITHDRAWN _____

Docket No. 05.0009.0119
ADOPTED W/O HEARING _____
EMERGENCY RULE _____
TO REVISOR ON 12-10-92
REVISOR (DIS)APPROVED 12-14-92
FILED W/SEC. OF STATE 12-23-92
RETURNED TO AGENCY _____

✓ Rule as adopted (4 copies)

_____ Notice to Solicit Outside Information/Opinion (if applicable)
_____ Date published in State Register
_____ Comments

_____ Petition for Adoption of a Rule

_____ Board's Authorizing Resolution
_____ Date adopted

✓ Proposed Rule
✓ Revisor's Certificate

✓ Notice of Intent to Adopt Rule
45.023, 61A.25 Statutory Authority
N/A Small Business Statement
N/A Expenditure of public money statement
10-12-92 Signature

✓ Statement of Need and Reasonableness (if applicable)
✓ Small Business Statement
N/A Fees - § 16A.128

✓ Affidavit of Mailing Notice of Intent to Adopt Rule
October 22, 1992 Dated 30/25 days before adoption
_____ Notice attached indicates it is attached
_____ Copy of rule or summary attached

✓ Publication in State Register
October 26, 1992 Date 30/25 days before adoption

✓ 180-day deadline from:
✓ Effective date of law requiring rule (14.12) (both rules) amendments don't apply not mandatory
_____ end of comment period (§ 14.26) (rules without hearing)
_____ effective date of statutory authority (§ 14.29) (emergency rules)

_____ Resolution Adopting
_____ Date adopted

✓ Findings of Fact, Conclusions & Order Adopting
December 3, 1992 Date

_____ Written Requests, Submissions or Comments

✓ Declaration of Attorney
Prentiss Cox Name of SAAG representing agency

_____ Notice of Submission to Attorney General (if applicable)

_____ Affidavit of Mailing Notice to Attorney General (if applicable) Did not put enclosure date on Notice

Department of Commerce

Adopted Permanent Rules Relating to Actuarial Opinion and Memorandum

Rules as Adopted

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

2711.0020 PURPOSE.

The purpose of this chapter is to prescribe:

A. guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, and for memoranda in support of these opinions;

B. guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from Minnesota Statutes, section 61A.25, subdivision 2b; and

C. rules applicable to the appointment of an appointed actuary.

2711.0030 APPLICATION AND SCOPE.

Subpart 1. **Generally.** This chapter applies to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state. This chapter applies to all annual statements filed with the office of the commissioner after the effective date of this chapter. Except with respect to companies which are exempted pursuant to part 2711.0060, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with part 2711.0080, and a supporting memorandum in accordance with part 2711.0090, shall be required each year. A company so exempted must file a statement of actuarial opinion pursuant to part 2711.0070.

Approved by Revisor PMM

Subp. 2. **Opinions from exempt companies.** Notwithstanding 1, the commissioner shall require a company otherwise exempt pursuant to ~~this chapter~~ part 2711.0060 to submit a statement of actuarial opinion and to prepare a supporting memorandum in accordance with parts 2711.0080 and 2711.0090 if, after a financial analysis of the company the commissioner determines ~~whether~~ that the insurer's asset portfolio, when viewed in light of current economic conditions, is not of sufficient value, liquidity, or diversity to ~~assure~~ ensure the company's ability to meet its outstanding obligations as they mature, and that an asset adequacy analysis is necessary with respect to the company.

2711.0040 DEFINITIONS.

Subpart 1. **Scope.** For the purposes of this chapter, the terms in this part have the meanings given them.

Subp. 2. **Actuarial Standards Board.** "Actuarial Standards Board" is the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.

Subp. 3. **Annual statement.** "Annual statement" means that statement required by Minnesota Statutes, section 60A.13, to be filed by the company with the office of the commissioner annually.

Subp. 4. **Appointed actuary.** "Appointed actuary" means an individual who is appointed or retained in accordance with part 2711.0050, subpart 3, to provide the actuarial opinion and supporting memorandum as required by Minnesota Statutes, section 61A.25, subdivisions 2a and 2b.

Subp. 5. **Asset adequacy analysis.** "Asset adequacy analysis" means an analysis that meets the standards and other requirements in part 2711.0050, subpart 4. It may take many forms, including, but not limited to, cash flow testing, sensitivity testing, or applications of risk theory.

Subp. 6. **Commissioner.** "Commissioner" means the commissioner of commerce.

Approved
by Revisor _____

Subp. 7. **Company.** "Company" means a life insurance company, fraternal benefit society, or reinsurer subject to this chapter.

Subp. 8. **NAIC.** "NAIC" means the National Association of Insurance Commissioners.

Subp. 9. **Noninvestment grade bonds.** "Noninvestment grade bonds" are those designated as class 3, 4, 5, or 6 by the NAIC Securities Valuation Office.

Subp. 10. **Qualified actuary.** "Qualified actuary" means an individual who meets the requirements in part 2711.0050, subpart 2.

2711.0050 GENERAL REQUIREMENTS.

Subpart 1. **Submission of statement of actuarial opinion.**

A. There is to be included on or attached to page 1 of the annual statement for each year the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with part 2711.0080. A company exempted pursuant to part 2711.0060 from submitting a statement of actuarial opinion in accordance with part 2711.0080 shall include on or attach to page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with part 2711.0070.

B. If in the previous year a company provided a statement of actuarial opinion in accordance with part 2711.0070, and in the current year fails the exemption criteria of part 2711.0060, subpart 3, item A, B, or E, to again provide an actuarial opinion in accordance with part 2711.0070, the statement of actuarial opinion in accordance with part 2711.0080 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with part 2711.0070 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with part

Approved
by Revisor _____

2711.0080.

C. In the case of a statement of actuarial opinion required to be submitted by a foreign or alien company, the commissioner may accept the statement of actuarial opinion filed by the company with the insurance supervisory regulator of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

Subp. 2. **Qualified actuary.** A "qualified actuary" is an individual who:

A. is a member in good standing of the American Academy of Actuaries;

B. is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing these statements;

C. is familiar with the valuation requirements applicable to life and health insurance companies;

D. has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:

(1) violated any provision of, or any obligation imposed by, the state insurance law or other law in the course of the actuary's dealings as a qualified actuary;

(2) been found guilty of fraudulent or dishonest practices;

(3) demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

(4) submitted to the commissioner during the past five years, pursuant to this chapter, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this chapter including standards set by the Actuarial Standards Board; or

(5) resigned or been removed as an actuary within the past five years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure

Approved by Revisor _____

to adhere to generally acceptable actuarial standards of the American Academy of Actuaries; and

E. has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under item D.

Subp. 3. **Appointed actuary.** An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements in subpart 2. Once the notice is furnished, no further notice is required with respect to this person, if the company gives the commissioner timely written notice if the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements in subpart 2. If a person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice must so state and give the reasons for replacement.

Subp. 4. **Standards for asset adequacy analysis.** The asset analysis required by this chapter must:

A. conform to the standards of practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under this chapter, which standards are to form the basis of the statement of actuarial opinion in accordance with part 2711.0080; and

B. be based on methods of analysis considered appropriate for these purposes by the Actuarial Standards Board.

Subp. 5. **Liabilities to be covered.**

A. Under authority of Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the statement of actuarial opinion applies to all in-force business on the statement date regardless of when or where issued, for example, reserves of

Approved by Revisor _____

exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part 1, and equivalent items in the separate account statement or statements.

B. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods in Minnesota Statutes, section 61A.25, subdivisions 4, 4a, 7, 8, and 9, the company shall establish this additional reserve.

C. For years ending before December 31, 1994, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

(1) December 31, 1992, the additional reserve divided by three; and

(2) December 31, 1993, two times the additional reserve divided by three.

D. Additional reserves established under item B or C and considered not necessary in subsequent years may be released. Amounts released must be disclosed in the actuarial opinion for the applicable year. The release of these reserves is not considered an adoption of a lower standard of valuation.

2711.0060 REQUIRED OPINIONS.

Subpart 1. **General.** In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, every company doing business in this state shall annually submit the opinion of an appointed actuary as provided for by this chapter. The type of opinion submitted is determined by this part and must be in accordance with this chapter.

Subp. 2. **Company categories.** For purposes of this chapter, companies shall be classified according to items A to D based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable.

A. Category A consists of those companies whose admitted assets do not exceed $20,000,000.

Approved
by Revisor _____

B. Category B consists of those companies whose admitted assets exceed $20,000,000 but do not exceed $100,000,000.

C. Category C consists of those companies whose admitted assets exceed $100,000,000 but do not exceed $500,000,000.

D. Category D consists of those companies whose admitted assets exceed $500,000,000.

Subp. 3. **Exemption eligibility tests.**

A. A category A company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which these criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.10.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.30.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

B. A category B company that for any year meets all

Approved
by Revisor _____

of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which the criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.07.

(2) The ratio of the sum of reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.40.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

C. A category A or B company that meets all of the criteria in item A or B, whichever is applicable, is exempted from submission of a statement of actuarial opinion in accordance with part 2711.0080 unless the commissioner specifically indicates to the company that the exemption is not to be taken.

D. A category A or B company that for any year is not exempted under item C shall be required to submit a statement of actuarial opinion in accordance with part 2711.0080 for the year for which it is not exempt.

E. A category C company that, after submitting an

Approved by Revisor _____

opinion in accordance with part 2711.0080, meets all of the criteria in subitems (1) to (4) shall not be required, unless required in accordance with item F, to submit a statement of actuarial opinion in accordance with part 2711.0080 more frequently than every third year. A category C company which fails to meet all of the criteria in subitems (1) to (4) for any year shall submit a statement of actuarial opinion in accordance with part 2711.0080 for that year. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.05.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.50.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of the capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

F. A company which is not required by this part to submit a statement of actuarial opinion in accordance with part 2711.0080 for any year shall submit a statement of actuarial opinion in accordance with part 2711.0070 for that year unless as provided for by part 2711.0030, subpart 2, the commissioner requires a statement of actuarial opinion in accordance with part 2711.0080.

Approved
by Revisor _____

Subp. 4. **Large companies.** A category D company shall submit a statement of actuarial opinion in accordance with part 2711.0080 for each year.

2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion required by this part consists of a paragraph identifying the appointed actuary and the actuary's qualifications; a regulatory authority paragraph stating that the company is exempt pursuant to this chapter from submitting a statement of actuarial opinion based on an asset adequacy analysis and that the opinion, which is not based on an asset adequacy analysis, is rendered in accordance with part 2711.0070; a scope paragraph identifying the subjects on which the opinion is to be expressed and describing the scope of the appointed actuary's work; and an opinion paragraph expressing the appointed actuary's opinion as required by Minnesota Statutes, section 61A.25, subdivision 2a.

Subp. 2. **Recommended language.** The following language provided is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this part. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary must use language which clearly expresses the actuary's professional judgment. However, the opinion must retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should indicate the appointed actuary's relationship to the company. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name of actuary], am [title] of [name of company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert

Approved by Revisor _____

date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health companies."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain a statement such as:

"I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The regulatory authority paragraph should include a statement such as the following: "This company is exempt pursuant to Minnesota Rules, part 2711.0060, of the Minnesota Department of Commerce from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with Minnesota Rules, part 2711.0070."

C. The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19..."

The paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

(1) aggregate reserve and deposit funds for policies and contracts included in exhibit 8;

(2) aggregate reserve and deposit funds for policies and contracts included in exhibit 9;

Approved by Revisor _____

(3) deposit funds, premiums, dividend and coupon accumulations, and supplementary contracts not involving life contingencies included in exhibit 10; and

(4) policy and contract claims--liability end of current year included in exhibit 11, part 1.

D. If the appointed actuary has examined the underlying records, the scope paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force prepared by the company or a third party, the scope paragraph should include a sentence such as one of the following:

"I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. (See accompanying affidavit by a company officer.) In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

The statement of the person certifying shall follow the

Approved by Revisor _____

form indicated by item J.

F. The opinion paragraph should include the following:

"In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below; and

(5) include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

G. The concluding paragraph should document the eligibility for the company to provide an opinion as provided by this part. It shall include the following:

"This opinion is provided in accordance with Minnesota Rules, part 2711.0070. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them.

Eligibility for Minnesota Rules, part 2711.0070, is

Approved by Revisor _____

confirmed as follows:

(a) The ratio of the sum of capital and surplus to the sum of cash and invested assets is [insert amount], which equals or exceeds the applicable criterion based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(b) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is [insert amount], which is less than the applicable criteria based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(c) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is [insert amount], which is less than the applicable criteria of 0.50.

(d) To my knowledge, the NAIC examiner team has not designated the company as a first priority company in any of the two calendar years preceding the calendar for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile, and has provided the necessary NAIC notification.

(e) To my knowledge there is not a specific request from any commissioner requiring an asset adequacy analysis opinion.

_____

Signature of Appointed Actuary

_____

Address of Appointed Actuary

_____

Telephone Number of Appointed Actuary"

H. If there has been any change in the actuarial

Approved
by Revisor _____

assumptions from those previously employed, that change should be described in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in item F, paragraph ~~(d)~~ (4), to consistency should read as follows:

"...with the exception of the change described on page [...] of the annual statement (or in the preceding paragraph)."

The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

I. If the appointed actuary is unable to form an opinion, the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

J. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion the statement of a company officer or accounting firm who prepared underlying data similar to the following:

"I, [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

Approved by Revisor _____

Telephone Number of the Officer of the Company or Accounting Firm

2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion submitted in accordance with this part shall consist of:

A. a paragraph, as required by subpart 2, item A, identifying the appointed actuary and the actuary's qualifications;

B. a scope paragraph, as required by subpart 2, item B, identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a delineation of the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed;

C. a reliance paragraph, as required by subpart 2, item C, describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures, or assumptions (for example, anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios) supported by a statement of each expert in the form prescribed by subpart 5;

D. an opinion paragraph, as required by subpart 2, item F, expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities; and

E. one or more additional paragraphs as needed in individual company cases if the appointed actuary:

(1) considers it necessary to state a qualification of the actuary's opinion;

(2) must disclose the method of aggregation for reserves of different products or lines of business for asset

Approved by Revisor _____

adequacy analysis;

(3) must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement reserves for asset adequacy analysis;

(4) must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;

(5) must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or

(6) chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

Subp. 2. **Recommended language.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this part. The language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses the actuary's professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should generally indicate the appointed actuary's relationship to the company and the actuary's qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health

Approved by Revisor _____

insurance companies."

For a consulting actuary, the opening paragraph should contain a sentence such as:

"I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The scope paragraph should include a statement such as the following:

"I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19... Delineated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

	Reserves and Liabilities				
	Asset Adequacy Tested Amounts				
	Formula Reserves	Additional Actuarial Reserves (a)	Analysis Method (b)	Other Amount	Total Amount (1)+(2)+(3)
Statement Item	(1)	(2)		(3)	(4)
Exhibit 8					
A Life Insurance					
B Annuities					
C Supplementary Contracts Involving Life Contingencies					
D Accidental Death Benefit					

Approved by Revisor _____

E	Disability - Active				
F	Disability - Disabled				
G	Miscellaneous Total (Exhibit 8 Item 1, Page 3)	_____	_____	_____	_____
Exhibit 9					
A	Active Life Reserve				
B	Claim Reserve Total (Exhibit 9 Item 2, Page 3)	_____	_____	_____	_____
Exhibit 10					
1	Premiums and Other Deposit Funds				
1.1	Policyholder Premiums (Page 3, Line 10.1)				
1.2	Guaranteed Interest Contracts (Page 3, Line 10.2)				
1.3	Other Contract Deposit Funds (Page 3, Line 10.3)				
2	Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)				
3	Dividend and Coupon Accumulations (Page 3, Line 5) Total Exhibit 10	_____	_____	_____	_____
Exhibit 11 Part 1					
1	Life (Page 3, Line 4.1)				
2	Health (Page 3, Line 4.2) Total Exhibit 11, Part 1	_____	_____	_____	_____
	Separate Accounts (Page 3, Line 27)	_____	_____	_____	_____
	TOTAL RESERVES	_____	_____	_____	_____

IMR (Page ___ Line ___) _____

AVR (Page ___ Line ___) _____(c)

Notes:

Approved by Revisor _____

(a) The additional actuarial reserves are the reserves established under part 2711.0050, subpart 5, item B or C.

(b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in part 2711.0050, subpart 4, by means of symbols which should be defined in footnotes to the table.

(c) Allocated amount."

C. If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as the following:

"I have relied on [name], [title] for [e.g., anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] and, as certified in the attached statement, ..."

or

"I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement."

Such a statement of reliance on other experts should be accompanied by a statement by each of such experts of the form prescribed by subpart 5.

D. If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force and/or asset records prepared by the company or a third party, the reliance paragraph should include a sentence such as:

"I have relied upon listings and summaries [of

Approved by Revisor _____

policies and contracts, of asset records] prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

Such a section must be accompanied by a statement by each person relied upon of the form prescribed in subpart 5.

F. The opinion paragraph should include the following: "In my opinion the reserves and related actuarial values concerning the statement items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and

Approved
by Revisor _____

(5) include provision for all actuarial reserves and related statement items which ought to be established. The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the principal repayments and investment earnings from such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion."

or

"The following material change or changes which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: [Describe the change or changes.]"

Note: Choose one of the above two paragraphs, whichever is applicable.

"The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the

Approved by Revisor _____

company's future experience may not follow all the assumptions used in the analysis.

_____
Signature of Appointed Actuary

_____
Address of Appointed Actuary

_____
Telephone Number of Appointed Actuary"

Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this part.

Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion, then the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

Subp. 5. **Reliance on data furnished by other persons.** If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset-oriented information, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared the underlying data similar to the following:

"I, [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____
Signature of the Officer of the Company

Approved
by Revisor _____

or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

_____

Telephone Number of the Officer of the Company or Accounting Firm"

and/or

"I, [name of officer], [title], of [name of company, accounting firm, or security analyst], hereby affirm that the listings, summaries, and analyses relating to data prepared for and submitted to [name of appointed actuary], in support of the asset-oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company, Accounting Firm, or the Security Analyst

_____

Address of the Officer of the Company, Accounting Firm, or the Security Analyst

_____

Telephone Number of the Officer of the Company, Accounting Firm, or the Security Analyst"

2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General.**

A. In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of the actuary's opinion regarding the reserves under a part 2711.0080 opinion. The memorandum shall be made available for examination by the commissioner upon the commissioner's request but shall be returned to the company after the examination and shall not be considered a record of the Department of Commerce or subject to automatic filing with the commissioner.

B. In preparing the memorandum, the appointed actuary may rely on, and include as a part of the actuary's own

Approved by Revisor _____

memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of part 2711.0050, subpart 2, with respect to the areas covered in the memoranda, and so state in their memoranda.

C. If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this chapter, the commissioner may designate a qualified actuary to review the opinion and prepare a supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but the review shall be directed and controlled by the commissioner.

D. The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner. Any information provided by the company to the reviewing actuary and included in the work papers is considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to Minnesota Statutes, section 61A.25, subdivision 2a, clause (j). The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this chapter for any one of the current year or the preceding three years.

Subp. 2. **Details of the memorandum section documenting asset adequacy analysis.** When an actuarial opinion under part 2711.0080 is provided, the memorandum must demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in part 2711.0050, subpart 4, and any additional standards under this chapter. It must specify:

A. for reserves:

(1) product descriptions including market

Approved by Revisor _____

description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

(2) source of liability in force;

(3) reserve method and basis;

(4) investment reserves; and

(5) reinsurance arrangements;

B. for assets:

(1) portfolio descriptions, including a risk profile disclosing the quality, distribution, and types of assets;

(2) investment and disinvestment assumptions;

(3) source of asset data; and

(4) asset valuation bases;

C. analysis basis:

(1) methodology;

(2) rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed;

(3) rationale for degree of rigor in analyzing different blocks of business;

(4) criteria for determining asset adequacy; and

(5) effect of federal income taxes, reinsurance, and other relevant factors;

D. summary of results; and

E. conclusions.

Subp. 3. **Conformity to standards of practice.** The memorandum must include the following statement:

"Actuarial methods, considerations, and analyses used in the preparation of this memorandum conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum."

2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS.

Subpart 1. **Aggregation.** For the asset adequacy analysis for the statement of actuarial opinion provided in accordance

Approved
by Revisor _____

with part 2711.0080, reserves and assets may be aggregated by either of the methods in item A or B.

A. Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

B. Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(1) are developed using consistent economic scenarios; or

(2) are subject to mutually independent risks, for example, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

In the event of any aggregation, the actuary must disclose in the actuary's opinion that the reserves were aggregated on the basis of the method in item A or B, whichever is applicable, and describe the aggregation in the supporting memorandum.

Subp. 2. **Selection of assets for analysis.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be

Approved by Revisor _____

allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in subpart 3. If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

Subp. 3. **Use of assets supporting Interest Maintenance Reserve and Asset Valuation Reserve.** An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum.

Subp. 4. **Required interest scenarios.** For the purpose of performing the asset adequacy analysis required by this chapter, the qualified actuary shall follow standards adopted by the Actuarial Standards Board; nevertheless, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

A. level with no deviation;

B. uniformly increasing over ten years at a half percent per year and then level;

C. uniformly increasing at one percent per year over five years and then uniformly decreasing at one percent per year to the original level at the end of ten years and then level;

D. an immediate increase of three percent and then

Approved
by Revisor _____

level;

E. uniformly decreasing over ten years at a half percent per year and then level;

F. uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

G. an immediate decrease of three percent and then level.

For these and other scenarios which may be used, projected interest rates for a five-year treasury note need not be reduced beyond the point where such five-year treasury note yield would be at 50 percent of its initial level.

The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

Subp. 5. **Documentation.** The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

EFFECTIVE DATE. This chapter is effective five working days after notice of adoption is published in the State Register and applies to annual statements required to be filed in 1993 and subsequent years.

Approved
by Revisor _____

RECEIVED

DEC 29 1992

Office of the Attorney General
Government Services Section
Capitol Office Bldg., Suite 500
525 Park Street
Paul, MN 55103

Office of the Revisor of Statutes

Administrative Rules

TITLE: Adopted Permanent Rules Relating to Actuarial Opinion and Memorandum

AGENCY: Department of Commerce

MINNESOTA RULES: Chapter 2711

APPROVED AS TO FORM AND LEGALITY
12-23 1992
HUBERT H. HUMPHREY, III
ATTORNEY GENERAL
BY Christie B. Eller (For AVK)
ASSISTANT ATTORNEY GENERAL

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
DEC 23 1992
Joan Anderson Growe
Secretary of State

3:28 PM
PB

The attached rules are approved for filing with the Secretary of State

Paul M. Marinac
Deputy Revisor

STATE OF MINNESOTA
Department of Commerce

In the Matter of Proposed Adoption of the Rules Relating to Actuarial Opinion and Memorandum

AMENDED FINDINGS OF FACT, CONCLUSIONS, AND ORDER ADOPTING RULES WITHOUT PUBLIC HEARING

Notice of the Commissioner's intent to adopt the above-entitled rules was published in the State Register on October 26, 1992 and was sent by United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minnesota Statutes, section 14.14, subdivision 1a and 14.22 on October 22, 1992. The Statement of Need and Reasonableness was prepared before the Notice of Intent to Adopt a Rule without a Public Hearing was mailed to all persons on the rulemaking mailing list and published in the State Register and was available to the public.

All persons were given the opportunity to submit comments on the rules for 30 days after notice of proposed rulemaking. The department received no written comments on the rules. No requests for a public hearing on the rules and no requests for notice of submission to the Attorney General were received by the department.

Based on the comments and evidence in the record before the department, I find the following:

1. Subpart 2 of Part 2711.0030 of the rules has been changed to make the text clearer and more grammatically correct. The reference to "this chapter" has been amended to state a more specific cite within the proposed rules pertaining to the exemption for certain companies from filing requirements. All other changes to this subpart have been made to correct grammar and to make the subpart easier to read. None of the amendments to this subpart are controversial or constitute substantial changes from the rules as originally published in the State Register.

2. Subpart 2, Item H of Part 2711.0070 as originally published in the State Register contains a typographical error. The reference to item F, paragraph (d) has been amended to correctly refer to item F, paragraph (4) of this subpart. This change does not constitute a substantial change to the rules as originally published.

3. The above-captioned rules, as amended, are needed and reasonable.

NOW, THEREFORE, IT IS ORDERED that the rules identified as the Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum are adopted this 22nd day of December, 1992, pursuant to the authority vested in me by Minnesota Statutes, sections 61A.25 and 45.023.

Bert J. McKasy
Commissioner of Commerce

RECEIVED

DEC 28 1992

Office of the Attorney General
Government Services Section
Capitol Office Bldg., Suite 500
525 Park Street
Paul, MN 55103

STATE OF MINNESOTA
Department of Commerce

In the Matter of Proposed Adoption of the Rules Relating to Real Estate Appraiser Licensing and Education

AMENDED FINDINGS OF FACT, CONCLUSIONS, AND ORDER ADOPTING RULES WITHOUT PUBLIC HEARING

Notice of the Commissioner's intent to adopt the above-entitled rules was published in the State Register on October 12, 1992 and was sent by United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minnesota Statutes, section 14.14, subdivision 1a and 14.22 on October 1, 1992. The Statement of Need and Reasonableness was prepared before the Notice of Intent to Adopt a Rule without a Public Hearing was mailed to all persons on the rulemaking mailing list and published in the State Register and was available to the public. A correction to the Notice of Intent to Adopt the above-referenced rules was published in the State Register on October 26, 1992. This correction was necessary because of a typographical error in the original Notice of Intent to Adopt Rules in which the ending date of the comment period was listed as October 19, 1992 instead of November 19, 1992. The correction, as published in the State Register on October 26, 1992, identified a new ending date for the comment period. The public was given a full 30 days after the correction was published in the State Register to submit comments on the proposed rules. On October 22, 1992, the correction was mailed to all persons and associations who have requested that their names be placed on our department's rulemaking mailing list.

All persons were given the opportunity to submit comments on the rules for 30 days after notice of proposed rulemaking. The department received one written comment on the rules, however, no requests for a public hearing on the rules were received by the department. No requests for notice of submission to the Attorney General were received by the department.

Based on the comments and evidence in the record before the department, I find the following:

1. Subpart 5 of Part 2808.3000 of the rules has been changed to correct a typographical error. Language was inadvertently omitted from this subpart which explains that an application for course approval must be accompanied by the application for approval of the instructor. This requirement is discussed in the statement of need and reasonableness for the proposed rules. The requirements under this subpart, as amended, are identical to the requirements for approval of course offerings for insurance agent licensees under Minnesota Rules Part 2725.0110 subpart 7. The change to the above-captioned rules is necessary to clarify the requirement under Subpart 5. The change does not constitute a substantial change from the rules as originally published in the State Register.

2. Subpart 12 of Part 2808.3000 of the above-captioned rules has been changed because the language as originally proposed tended to be confusing and could be interpreted as creating an additional course approval requirement. The purpose of

this provision was merely to allow discounts on course fees which is all that the new language now states. Consequently, this is not a substantial change to the rules as original proposed.

3. The above-captioned rules, as amended, are needed and reasonable.

NOW, THEREFORE, IT IS ORDERED that the rules identified as the Proposed Permanent Rules Relating to Real Estate Appraiser Licensing and Education are adopted this 22nd day of December, 1992, pursuant to the authority vested in me by Minnesota Statutes, sections 82B.13, 82B.19 and 45.023.

Bert J. McKasy
Commissioner of Commerce

DEC 28 1992

Office of the Attorney General
Government Services Section
Capitol Office Bldg., Suite 500
525 Park Street
Paul, MN 55103

Department of Commerce

Adopted Permanent Rules Relating to Actuarial Opinion and Memorandum

Rules as Adopted

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

2711.0020 PURPOSE.

The purpose of this chapter is to prescribe:

A. guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, and for memoranda in support of these opinions;

B. guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from Minnesota Statutes, section 61A.25, subdivision 2b; and

C. rules applicable to the appointment of an appointed actuary.

2711.0030 APPLICATION AND SCOPE.

Subpart 1. **Generally.** This chapter applies to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state. This chapter applies to all annual statements filed with the office of the commissioner after the effective date of this chapter. Except with respect to companies which are exempted pursuant to part 2711.0060, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with part 2711.0080, and a supporting memorandum in accordance with part 2711.0090, shall be required each year. A company so exempted must file a statement of actuarial opinion pursuant to part 2711.0070.

Approved by Revisor PMM

Subp. 2. **Opinions from exempt companies.** Notwithstanding 1, the commissioner shall require a company otherwise exempt pursuant to ~~this chapter~~ part 2711.0060 to submit a statement of actuarial opinion and to prepare a supporting memorandum in accordance with parts 2711.0080 and 2711.0090 if, after a financial analysis of the company the commissioner determines ~~whether~~ that the insurer's asset portfolio, when viewed in light of current economic conditions, is not of sufficient value, liquidity, or diversity to ~~assure~~ ensure the company's ability to meet its outstanding obligations as they mature, and that an asset adequacy analysis is necessary with respect to the company.

2711.0040 DEFINITIONS.

Subpart 1. **Scope.** For the purposes of this chapter, the terms in this part have the meanings given them.

Subp. 2. **Actuarial Standards Board.** "Actuarial Standards Board" is the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.

Subp. 3. **Annual statement.** "Annual statement" means that statement required by Minnesota Statutes, section 60A.13, to be filed by the company with the office of the commissioner annually.

Subp. 4. **Appointed actuary.** "Appointed actuary" means an individual who is appointed or retained in accordance with part 2711.0050, subpart 3, to provide the actuarial opinion and supporting memorandum as required by Minnesota Statutes, section 61A.25, subdivisions 2a and 2b.

Subp. 5. **Asset adequacy analysis.** "Asset adequacy analysis" means an analysis that meets the standards and other requirements in part 2711.0050, subpart 4. It may take many forms, including, but not limited to, cash flow testing, sensitivity testing, or applications of risk theory.

Subp. 6. **Commissioner.** "Commissioner" means the commissioner of commerce.

Approved
by Revisor _____

Subp. 7. **Company.** "Company" means a life insurance company, fraternal benefit society, or reinsurer subject to this chapter.

Subp. 8. **NAIC.** "NAIC" means the National Association of Insurance Commissioners.

Subp. 9. **Noninvestment grade bonds.** "Noninvestment grade bonds" are those designated as class 3, 4, 5, or 6 by the NAIC Securities Valuation Office.

Subp. 10. **Qualified actuary.** "Qualified actuary" means an individual who meets the requirements in part 2711.0050, subpart 2.

2711.0050 GENERAL REQUIREMENTS.

Subpart 1. **Submission of statement of actuarial opinion.**

A. There is to be included on or attached to page 1 of the annual statement for each year the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with part 2711.0080. A company exempted pursuant to part 2711.0060 from submitting a statement of actuarial opinion in accordance with part 2711.0080 shall include on or attach to page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with part 2711.0070.

B. If in the previous year a company provided a statement of actuarial opinion in accordance with part 2711.0070, and in the current year fails the exemption criteria of part 2711.0060, subpart 3, item A, B, or E, to again provide an actuarial opinion in accordance with part 2711.0070, the statement of actuarial opinion in accordance with part 2711.0080 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with part 2711.0070 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with part

Approved
by Revisor _____

2711.0080.

C. In the case of a statement of actuarial opinion required to be submitted by a foreign or alien company, the commissioner may accept the statement of actuarial opinion filed by the company with the insurance supervisory regulator of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

Subp. 2. **Qualified actuary.** A "qualified actuary" is an individual who:

A. is a member in good standing of the American Academy of Actuaries;

B. is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing these statements;

C. is familiar with the valuation requirements applicable to life and health insurance companies;

D. has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:

(1) violated any provision of, or any obligation imposed by, the state insurance law or other law in the course of the actuary's dealings as a qualified actuary;

(2) been found guilty of fraudulent or dishonest practices;

(3) demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

(4) submitted to the commissioner during the past five years, pursuant to this chapter, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this chapter including standards set by the Actuarial Standards Board; or

(5) resigned or been removed as an actuary within the past five years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure

Approved
by Revisor _____

to adhere to generally acceptable actuarial standards of the American Academy of Actuaries; and

E. has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under item D.

Subp. 3. **Appointed actuary.** An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements in subpart 2. Once the notice is furnished, no further notice is required with respect to this person, if the company gives the commissioner timely written notice if the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements in subpart 2. If a person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice must so state and give the reasons for replacement.

Subp. 4. **Standards for asset adequacy analysis.** The asset analysis required by this chapter must:

A. conform to the standards of practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under this chapter, which standards are to form the basis of the statement of actuarial opinion in accordance with part 2711.0080; and

B. be based on methods of analysis considered appropriate for these purposes by the Actuarial Standards Board.

Subp. 5. **Liabilities to be covered.**

A. Under authority of Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the statement of actuarial opinion applies to all in-force business on the statement date regardless of when or where issued, for example, reserves of

Approved by Revisor _____

exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part 1, and equivalent items in the separate account statement or statements.

B. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods in Minnesota Statutes, section 61A.25, subdivisions 4, 4a, 7, 8, and 9, the company shall establish this additional reserve.

C. For years ending before December 31, 1994, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

(1) December 31, 1992, the additional reserve divided by three; and

(2) December 31, 1993, two times the additional reserve divided by three.

D. Additional reserves established under item B or C and considered not necessary in subsequent years may be released. Amounts released must be disclosed in the actuarial opinion for the applicable year. The release of these reserves is not considered an adoption of a lower standard of valuation.

2711.0060 REQUIRED OPINIONS.

Subpart 1. **General.** In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, every company doing business in this state shall annually submit the opinion of an appointed actuary as provided for by this chapter. The type of opinion submitted is determined by this part and must be in accordance with this chapter.

Subp. 2. **Company categories.** For purposes of this chapter, companies shall be classified according to items A to D based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable.

A. Category A consists of those companies whose admitted assets do not exceed $20,000,000.

Approved by Revisor _____

B. Category B consists of those companies whose admitted assets exceed $20,000,000 but do not exceed $100,000,000.

C. Category C consists of those companies whose admitted assets exceed $100,000,000 but do not exceed $500,000,000.

D. Category D consists of those companies whose admitted assets exceed $500,000,000.

Subp. 3. **Exemption eligibility tests.**

A. A category A company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which these criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.10.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.30.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

B. A category B company that for any year meets all

Approved
by Revisor _____

of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which the criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.07.

(2) The ratio of the sum of reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.40.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

C. A category A or B company that meets all of the criteria in item A or B, whichever is applicable, is exempted from submission of a statement of actuarial opinion in accordance with part 2711.0080 unless the commissioner specifically indicates to the company that the exemption is not to be taken.

D. A category A or B company that for any year is not exempted under item C shall be required to submit a statement of actuarial opinion in accordance with part 2711.0080 for the year for which it is not exempt.

E. A category C company that, after submitting an

Approved by Revisor _____

opinion in accordance with part 2711.0080, meets all of the criteria in subitems (1) to (4) shall not be required, unless required in accordance with item F, to submit a statement of actuarial opinion in accordance with part 2711.0080 more frequently than every third year. A category C company which fails to meet all of the criteria in subitems (1) to (4) for any year shall submit a statement of actuarial opinion in accordance with part 2711.0080 for that year. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.05.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.50.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of the capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

F. A company which is not required by this part to submit a statement of actuarial opinion in accordance with part 2711.0080 for any year shall submit a statement of actuarial opinion in accordance with part 2711.0070 for that year unless as provided for by part 2711.0030, subpart 2, the commissioner requires a statement of actuarial opinion in accordance with part 2711.0080.

Approved
by Revisor _____

Subp. 4. **Large companies.** A category D company shall submit a statement of actuarial opinion in accordance with part 2711.0080 for each year.

2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion required by this part consists of a paragraph identifying the appointed actuary and the actuary's qualifications; a regulatory authority paragraph stating that the company is exempt pursuant to this chapter from submitting a statement of actuarial opinion based on an asset adequacy analysis and that the opinion, which is not based on an asset adequacy analysis, is rendered in accordance with part 2711.0070; a scope paragraph identifying the subjects on which the opinion is to be expressed and describing the scope of the appointed actuary's work; and an opinion paragraph expressing the appointed actuary's opinion as required by Minnesota Statutes, section 61A.25, subdivision 2a.

Subp. 2. **Recommended language.** The following language provided is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this part. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary must use language which clearly expresses the actuary's professional judgment. However, the opinion must retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should indicate the appointed actuary's relationship to the company. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name of actuary], am [title] of [name of company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert

Approved by Revisor _____

date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health companies."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain a statement such as:

"I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The regulatory authority paragraph should include a statement such as the following: "This company is exempt pursuant to Minnesota Rules, part 2711.0060, of the Minnesota Department of Commerce from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with Minnesota Rules, part 2711.0070."

C. The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19..."

The paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

(1) aggregate reserve and deposit funds for policies and contracts included in exhibit 8;

(2) aggregate reserve and deposit funds for policies and contracts included in exhibit 9;

Approved by Revisor _____

(3) deposit funds, premiums, dividend and coupon accumulations, and supplementary contracts not involving life contingencies included in exhibit 10; and

(4) policy and contract claims--liability end of current year included in exhibit 11, part 1.

D. If the appointed actuary has examined the underlying records, the scope paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force prepared by the company or a third party, the scope paragraph should include a sentence such as one of the following:

"I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. (See accompanying affidavit by a company officer.) In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

The statement of the person certifying shall follow the

Approved by Revisor _____

form indicated by item J.

F. The opinion paragraph should include the following:

"In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below; and

(5) include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

G. The concluding paragraph should document the eligibility for the company to provide an opinion as provided by this part. It shall include the following:

"This opinion is provided in accordance with Minnesota Rules, part 2711.0070. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them.

Eligibility for Minnesota Rules, part 2711.0070, is

Approved by Revisor _____

confirmed as follows:

(a) The ratio of the sum of capital and surplus to the sum of cash and invested assets is [insert amount], which equals or exceeds the applicable criterion based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(b) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is [insert amount], which is less than the applicable criteria based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(c) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is [insert amount], which is less than the applicable criteria of 0.50.

(d) To my knowledge, the NAIC examiner team has not designated the company as a first priority company in any of the two calendar years preceding the calendar for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile, and has provided the necessary NAIC notification.

(e) To my knowledge there is not a specific request from any commissioner requiring an asset adequacy analysis opinion.

_____

Signature of Appointed Actuary

_____

Address of Appointed Actuary

_____

Telephone Number of Appointed Actuary"

H. If there has been any change in the actuarial

Approved by Revisor _____

assumptions from those previously employed, that change should be described in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in item F, paragraph (d), to consistency should read as follows:

"...with the exception of the change described on page [...] of the annual statement (or in the preceding paragraph)."

The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

I. If the appointed actuary is unable to form an opinion, the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

J. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion the statement of a company officer or accounting firm who prepared underlying data similar to the following:

"I, [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

Approved by Revisor _____

Telephone Number of the Officer of the Company or Accounting Firm

2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion submitted in accordance with this part shall consist of:

A. a paragraph, as required by subpart 2, item A, identifying the appointed actuary and the actuary's qualifications;

B. a scope paragraph, as required by subpart 2, item B, identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a delineation of the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed;

C. a reliance paragraph, as required by subpart 2, item C, describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures, or assumptions (for example, anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios) supported by a statement of each expert in the form prescribed by subpart 5;

D. an opinion paragraph, as required by subpart 2, item F, expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities; and

E. one or more additional paragraphs as needed in individual company cases if the appointed actuary:

(1) considers it necessary to state a qualification of the actuary's opinion;

(2) must disclose the method of aggregation for reserves of different products or lines of business for asset

Approved by Revisor _____

adequacy analysis;

(3) must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement reserves for asset adequacy analysis;

(4) must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;

(5) must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or

(6) chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

Subp. 2. **Recommended language.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this part. The language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses the actuary's professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should generally indicate the appointed actuary's relationship to the company and the actuary's qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health

Approved by Revisor _____

insurance companies."

For a consulting actuary, the opening paragraph should contain a sentence such as:

"I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The scope paragraph should include a statement such as the following:

"I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19... Delineated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

	Reserves and Liabilities				
	Asset Adequacy Tested Amounts				
	Formula Reserves	Additional Actuarial Reserves (a)	Analysis Method (b)	Other Amount	Total Amount (1)+(2)+(3)
Statement Item	(1)	(2)		(3)	(4)
Exhibit 8					
A Life Insurance					
B Annuities					
C Supplementary Contracts Involving Life Contingencies					
D Accidental Death Benefit					

Approved by Revisor _____

E	Disability - Active				
F	Disability - Disabled				
G	Miscellaneous Total (Exhibit 8 Item 1, Page 3)	_____	_____	_____	_____
Exhibit 9					
A	Active Life Reserve				
B	Claim Reserve Total (Exhibit 9 Item 2, Page 3)	_____	_____	_____	_____
Exhibit 10					
1	Premiums and Other Deposit Funds				
1.1	Policyholder Premiums (Page 3, Line 10.1)				
1.2	Guaranteed Interest Contracts (Page 3, Line 10.2)				
1.3	Other Contract Deposit Funds (Page 3, Line 10.3)				
2	Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)				
3	Dividend and Coupon Accumulations (Page 3, Line 5) Total Exhibit 10	_____	_____	_____	_____
Exhibit 11 Part 1					
1	Life (Page 3, Line 4.1)				
2	Health (Page 3, Line 4.2) Total Exhibit 11, Part 1	_____	_____	_____	_____
	Separate Accounts (Page 3, Line 27)	_____	_____	_____	_____
	TOTAL RESERVES	_____	_____	_____	_____

IMR (Page ___ Line ___) _____

AVR (Page ___ Line ___) _____(c)

Notes:

Approved by Revisor _____

(a) The additional actuarial reserves are the reserves established under part 2711.0050, subpart 5, item B or C.

(b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in part 2711.0050, subpart 4, by means of symbols which should be defined in footnotes to the table.

(c) Allocated amount."

C. If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as the following:

"I have relied on [name], [title] for [e.g., anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] and, as certified in the attached statement, ..."

or

"I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement."

Such a statement of reliance on other experts should be accompanied by a statement by each of such experts of the form prescribed by subpart 5.

D. If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force and/or asset records prepared by the company or a third party, the reliance paragraph should include a sentence such as:

"I have relied upon listings and summaries [of

Approved by Revisor _____

policies and contracts, of asset records] prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

Such a section must be accompanied by a statement by each person relied upon of the form prescribed in subpart 5.

F. The opinion paragraph should include the following: "In my opinion the reserves and related actuarial values concerning the statement items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and

Approved by Revisor _____

(5) include provision for all actuarial reserves and related statement items which ought to be established. The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the principal repayments and investment earnings from such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion."

or

"The following material change or changes which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: [Describe the change or changes.]"

Note: Choose one of the above two paragraphs, whichever is applicable.

"The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the

Approved by Revisor _____

company's future experience may not follow all the assumptions used in the analysis.

_____
Signature of Appointed Actuary

_____
Address of Appointed Actuary

_____
Telephone Number of Appointed Actuary"

Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this part.

Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion, then the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

Subp. 5. **Reliance on data furnished by other persons.** If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset-oriented information, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared the underlying data similar to the following:

"I, [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____
Signature of the Officer of the Company

Approved by Revisor _____

or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

_____

Telephone Number of the Officer of the Company or Accounting Firm"

and/or

"I, [name of officer], [title], of [name of company, accounting firm, or security analyst], hereby affirm that the listings, summaries, and analyses relating to data prepared for and submitted to [name of appointed actuary], in support of the asset-oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company, Accounting Firm, or the Security Analyst

_____

Address of the Officer of the Company, Accounting Firm, or the Security Analyst

_____

Telephone Number of the Officer of the Company, Accounting Firm, or the Security Analyst"

2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General.**

A. In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of the actuary's opinion regarding the reserves under a part 2711.0080 opinion. The memorandum shall be made available for examination by the commissioner upon the commissioner's request but shall be returned to the company after the examination and shall not be considered a record of the Department of Commerce or subject to automatic filing with the commissioner.

B. In preparing the memorandum, the appointed actuary may rely on, and include as a part of the actuary's own

Approved by Revisor _____

memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of part 2711.0050, subpart 2, with respect to the areas covered in the memoranda, and so state in their memoranda.

C. If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this chapter, the commissioner may designate a qualified actuary to review the opinion and prepare a supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but the review shall be directed and controlled by the commissioner.

D. The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner. Any information provided by the company to the reviewing actuary and included in the work papers is considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to Minnesota Statutes, section 61A.25, subdivision 2a, clause (j). The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this chapter for any one of the current year or the preceding three years.

Subp. 2. **Details of the memorandum section documenting asset adequacy analysis.** When an actuarial opinion under part 2711.0080 is provided, the memorandum must demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in part 2711.0050, subpart 4, and any additional standards under this chapter. It must specify:

A. for reserves:

(1) product descriptions including market

Approved by Revisor _____

description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

(2) source of liability in force;

(3) reserve method and basis;

(4) investment reserves; and

(5) reinsurance arrangements;

B. for assets:

(1) portfolio descriptions, including a risk profile disclosing the quality, distribution, and types of assets;

(2) investment and disinvestment assumptions;

(3) source of asset data; and

(4) asset valuation bases;

C. analysis basis:

(1) methodology;

(2) rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed;

(3) rationale for degree of rigor in analyzing different blocks of business;

(4) criteria for determining asset adequacy; and

(5) effect of federal income taxes, reinsurance, and other relevant factors;

D. summary of results; and

E. conclusions.

Subp. 3. **Conformity to standards of practice.** The memorandum must include the following statement:

"Actuarial methods, considerations, and analyses used in the preparation of this memorandum conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum."

2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS.

Subpart 1. **Aggregation.** For the asset adequacy analysis for the statement of actuarial opinion provided in accordance

Approved by Revisor _____

with part 2711.0080, reserves and assets may be aggregated by either of the methods in item A or B.

A. Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

B. Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(1) are developed using consistent economic scenarios; or

(2) are subject to mutually independent risks, for example, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

In the event of any aggregation, the actuary must disclose in the actuary's opinion that the reserves were aggregated on the basis of the method in item A or B, whichever is applicable, and describe the aggregation in the supporting memorandum.

Subp. 2. **Selection of assets for analysis.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be

Approved
by Revisor _____

allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in subpart 3. If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

Subp. 3. **Use of assets supporting Interest Maintenance Reserve and Asset Valuation Reserve.** An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum.

Subp. 4. **Required interest scenarios.** For the purpose of performing the asset adequacy analysis required by this chapter, the qualified actuary shall follow standards adopted by the Actuarial Standards Board; nevertheless, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

A. level with no deviation;

B. uniformly increasing over ten years at a half percent per year and then level;

C. uniformly increasing at one percent per year over five years and then uniformly decreasing at one percent per year to the original level at the end of ten years and then level;

D. an immediate increase of three percent and then

Approved
by Revisor _____

level;

E. uniformly decreasing over ten years at a half percent per year and then level;

F. uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

G. an immediate decrease of three percent and then level.

For these and other scenarios which may be used, projected interest rates for a five-year treasury note need not be reduced beyond the point where such five-year treasury note yield would be at 50 percent of its initial level.

The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

Subp. 5. **Documentation.** The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

EFFECTIVE DATE. This chapter is effective five working days after notice of adoption is published in the State Register and applies to annual statements required to be filed in 1993 and subsequent years.

Approved
by Revisor _____

APPROVED AS TO FORM AND LEGALITY

12-23 1992

HUBERT H. HUMPHREY, III
ATTORNEY GENERAL

BY Amy V. Kvaloeth
SPECIAL ASSISTANT ATTORNEY GENERAL

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED

DEC 23 1992

Joan Anderson Growe
Secretary of State

3:38 P

STATE OF MINNESOTA

Office of the Attorney General

TO : MARYANNE HRUBY
Legislative Commission to
Review Administrative Rules

DATE : December ~~4~~ 23, 1992

FROM : AMY V. KVALSETH
Special Assistant
Attorney General

PHONE : 296-9422

SUBJECT : Harmless Error--Department of ~~Revenue~~ Commerce Rules

December 23

On ~~November 25~~, 1992, this Office approved the permanent rules relating to actuarial ~~disclosure of return information in investigation~~ adopted by the Department of ~~Revenue~~ Commerce. Minn. Rules pt. ~~8170.0100~~ 2711.0020. We applied the harmless error rule to the following ~~two~~ situations:

opinion and memorandum

1. The Notice of Intent to Adopt a Rule Without a Public Hearing ~~was mailed to persons and associations specified in the Department of Revenue's rulemaking mailing list on September 23, 1992, nine days after the notice was published in the State Register. Because of this delay, the Department of Revenue provided all persons receiving the notice by mail with an extended comment period (as specified in the notice as mailed), until October 28, 1992 such that all interested persons had at least 30 days to submit comments or request a hearing. Since all interested persons had 30 days to submit comments or request a hearing, and~~ since no comments were received, no one was deprived of participating in the rulemaking process. ~~The agency did take corrective action to cure the error.~~ Thus, the error constituted harmless error.

did not give the end date & the comment period.

2. The Notice of Intent to Adopt a Rule Without a Public Hearing as mailed was prepared under the signature of Michael E. Boekhaus, but it did not contain his handwritten signature. The lack of a handwritten signature did not deprive any person of an opportunity to participate meaningfully in the rulemaking process since all persons had at least 30 days to comment and the mailed notice clearly specified that it was issued under Mr. Boekhaus' authority. Moreover, his handwritten signature does appear on the Findings of Faet, Conclusions of Law and Order Adopting Rule Without a Public Hearing. He does have the requisite authority. Thus, the error constituted harmless error.

If you have any questions regarding this approval, please contact me.

AVK:cr.kval.al9

STATE OF MINNESOTA

Office of the Attorney General

TO : MARYANNE HRUBY
Legislative Commission to
Review Administrative Rules

DATE : December 23, 1992

FROM : AMY V. KVALSETH avk/tv
Special Assistant
Attorney General

PHONE : 296-9422

SUBJECT : **Harmless Error--Department of Commerce Rules**

On December 23, 1992, this Office approved the permanent rules relating to actuarial opinion and memorandum adopted by the Department of Commerce. Minn. Rules pt. 2711.0020. We applied the harmless error rule to the following situation:

1. The Notices of Intent to Adopt a Rule Without a Public Hearing did not give the end date of the comment period. Since no comments were received, no one was deprived of participating in the rulemaking process. Thus, the error constituted harmless error.

If you have any questions regarding this approval, please contact me.

AVK:cr.kval.al9

STATE OF MINNESOTA

Office of the Attorney General

TO : DONNA WATZ
Department of Commerce

DATE : December 28, 1992

FROM : AMY V. KVALSETH
Special Assistant
Attorney General

PHONE : 296-9422

SUBJECT : **Adopted Permanent Rules Relating to Actuarial Opinion and Memorandum**

The above-referenced rule has been approved as to its legality by the Attorney General on December 23, 1992.

Enclosed is your copy of the approved rule. This office has already filed two copies with the Secretary of State, who will forward one copy to the Revisor of Statutes. The fourth is being retained by this division of the Attorney General's Office for its records.

Also enclosed are any petitions, requests, submissions or comments along with any extra copies of documents which you submitted to the Attorney General.

Your next step is to arrange for publication of the Notice of Adoption in the State Register. In a day or two, you should receive from the Revisor's Office three copies of the notice of adoption of your rule. You should submit two copies of the Notice of Adoption to the State Register for publication. A permanent rule without a hearing does not become effective until five days after a notice of adoption is published in the State Register in accordance with Minn. Stat. § 14.27. An emergency rule becomes effective five working days after approval by the Attorney General; however, the agency must publish a notice in the State Register in accordance with Minn. Stat. § 14.34.

If you have any questions in this regard, please contact me.

Enclosures
cc: Prentiss Cox
William Brown, Chief Judge
MaryAnn Hruby

AVK:cr.rules.bf3

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed Adoption of the Rule Relating to Actuarial Opinion and Memorandum

STATEMENT OF NEED AND REASONABLENESS OF PROPOSED RULES

STATEMENT OF AUTHORITY

Minnesota Statutes Section 61A.25, subdivisions 2a(a), 2a(h) and 2b(b) permit the Commissioner of Commerce to adopt rules to carry out the provisions of Chapter 61A governing the Actuarial Opinion and Memorandum. These rules are proposed pursuant to that authority and authority granted the Commissioner under Minnesota Statutes Sections 61A.25 and 45.023.

FACTS ESTABLISHING NEED AND REASONABLENESS

Adoption of the proposed Actuarial Opinion and Memorandum Rules is one of the final stages of an upgrading of insurance regulation which began in Minnesota several years ago with the combined Department-Insurance Industry Task Force on Solvency ("Task Force"). The enhancement of insurance regulation has been pursued on a national level by the National Association of Insurance Commissioners (NAIC) through its accreditation process. In both instances, the concern about the solvency of life and health insurance companies resulted in recommendations to improve the regulatory structure as well as the statutory investment and

operational requirements for life and health insurance companies. Similar requirements, at least in Minnesota, have also been pursued in regard to property and casualty companies.

In Minnesota, the Task Force produced a report which required a number of statutory and other changes. At the same time, the NAIC developed a number of model laws and regulations, as well as other standards and criteria, which each state was required to adopt in order to be accredited. The accreditation process of the NAIC is intended to set minimum standards for each state's insurance department. Achieving these standards results in the department being accredited. Without accreditation, the examinations and reports on the financial condition of insurers, primarily of domestic insurance companies, performed by the department need not be given full faith and credit by the other states in which these companies are doing business. Accordingly, those states can conduct their own examinations of Minnesota domestic insurers. As these examinations are rather expensive and time consuming, duplication would impose a severe financial burden on domestic insurers of a non-accredited state. The insurers must pay the department's examination expense. Consequently, the Minnesota domestic insurance industry has fully supported the accreditation process.

The accreditation process, as well as the work of the Task Force, has performed a significant public service, because increased

regulation and better standards reduce the likelihood of insolvency and loss to policyholders. The insurance industry benefits by not having to pay, through the guaranty associations and similar means, the cost of insurance failures. The state gains through increased confidence in the insurance products being sold in Minnesota. In addition, by preventing insolvencies that involve domestic insurers, Minnesota maintains jobs and income for its residents.

The NAIC accreditation process and the Task Force's work were combined and codified into the 1991 Solvency Bill (Chapter 325 of the 1991 Session Laws). Under this bill, the legislature adopted all of the NAIC model acts not previously enacted in Minnesota, and brought previously adopted model acts into conformity with the current NAIC versions of those acts. In addition, the 1991 Solvency Bill granted the Department of Commerce other powers recommended by the Task Force and all authority believed to be necessary for the Department to receive NAIC accreditation. It was a full and unqualified endorsement of the process. The 1991 Solvency Bill passed unanimously in both houses with very vocal support, particularly concerning those portions of the law that would ensure public protection from future insurer insolvencies. Specific references were made by legislators to major insolvencies that received so much press coverage in the last year.

One of the model laws previously adopted in Minnesota which needed to be amended to conform with the new NAIC models was the Standard

Valuation Law, codified as Minnesota Statutes Chapter 61A.25. The Standard Valuation Law prescribes the minimum standards for reserves for the insurance and related contract liabilities of a life insurance company. Reserves are balance sheet liabilities which are calculated in accordance with the methods, tables and interest rates defined in the Act, and are maintained in order to ensure that a company has made the correct provision for meeting its contractual obligations (i.e., payments which will need to be made sometime in the future according to contractual terms). The company must hold assets in the amount of these reserves to ensure that the company's obligations can be met.

A number of substantial changes to the law were made by the 1991 legislature, specifically related to the new NAIC model requirements for actuarial opinions and memoranda. An actuarial opinion is a statement by a qualified actuary that the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions which satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable laws.In the event a company is not exempted from doing so, the actuarial opinion must now contain a statement by the same qualified actuary that the assets which are held by the company to support the reserves and related actuarial items are of the appropriate amount, type and structure to permit the timely payment of the future obligations, without detrimental effect to the company. Where the company is

not exempted from doing so, an actuarial memorandum describing this asset adequacy analysis is to be prepared by the actuary to support the actuarial opinion. Such a memorandum will contain a detailed description of the methods, assumptions and results which were used by the actuary in rendering the opinion.

As a result of the changes to Chapter 61A.25 in 1991, and to provide for the related model regulation, it became necessary to propose these Minnesota Rules Part 2711 to reflect the new requirements and, in some cases, the new terminology and styles of the amended Chapter 61A.25. Adoption of the proposed rules is necessary to complete the process of conformity with NAIC standards for accreditation. Failure to do so would jeopardize the accreditation of Minnesota and, as importantly, would leave Minnesota without regulations that are consistent with the current law. The purpose of the rules is to prescribe guidelines and standards to be followed by life insurance companies and fraternal benefit societies for statements of actuarial opinion and supporting memoranda submitted in accordance with Minnesota Statutes Section 61A.25, subdivisions 2a and 2b, and for the appointment of an appointed actuary. The proposed rules conform with national model regulations.

ANALYSIS

As more specifically stated in the following paragraphs, the proposed rules are necessary to provide guidelines and standards which are in compliance with recent changes in Minnesota Statutes Section 61A.25, and with the new NAIC model actuarial opinion and memorandum regulation. While some of the detail in the rules is covered in a very detailed fashion, such detail is crucial to clearly specify the requirements to comply with the standards of the American Academy of Actuaries, the national organization which is the single authority for all professional actuaries in matters relating to actuarial opinions.

PART 2711.0020 PURPOSE

This part identifies the purpose of the rules, namely, to prescribe instructions relative to the new provisions of the Standard Valuation Law covering actuarial opinions and memoranda, and appointed actuaries. The language is consistent with the NAIC model regulation in its application.

PART 2711.0030 APPLICATION AND SCOPE

Subpart 1. Generally. This subpart restates the statutory requirement that the rules apply to all life insurance companies and fraternal benefit societies doing business in the state, and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident

and health insurance business in the state. It also states in a summary fashion the general requirements for the filing of actuarial opinions and memoranda for companies which are not exempt from performing an asset adequacy analysis. Unless exempted by these rules, all companies must by statute include in their actuarial opinion a statement by a qualified actuary as to the required asset adequacy analysis.

Subpart 2. Opinions from exempt companies. This subpart discusses the Commissioner's authority to require an asset adequacy analysis from a company which would otherwise be exempt. This authority is provided only when, during the course of an examination, the examiner determines that the asset portfolio may not be adequate to satisfy the company's contractual obligations in accordance with the Standard Valuation Law, and advises the Commissioner that based upon the examiner's detailed financial analysis, an asset adequacy analysis is necessary. As will be discussed later, only small companies which exhibit convincing evidence of sound financial condition will be exempted from the asset adequacy analysis requirements of the Act.

PART 2711.0040 DEFINITIONS

Part 2711.0040 defines terms used in these rules. The definitions clarify the terms used in the body of the rules. All the definitions are identical to those in the NAIC model regulation.

PART 2711.0050 GENERAL REQUIREMENTS

Subpart 1. Submission of statement of actuarial opinion. The Act requires that an actuarial opinion be filed with the annual statement. As discussed in the "Facts Establishing Need and Reasonableness" section earlier in this Statement of Need and Reasonableness ("Statement"), the purpose of the actuarial opinion is to ensure that a qualified professional actuary has certified that the requirements of the Act have been carried out, namely, that there has been sound provision made by the company for meeting its contractual obligations.

Item A of this subpart specifies the requirements which must be complied with by companies filing opinions, based upon whether or not the company is exempt from providing an asset adequacy analysis.

Item B provides for a later filing date for companies which fail one of the exemption criteria, if that company had been exempt the prior year. Such relief is needed because of the time and expense involved in performing asset adequacy analyses for the first time. The later date is applicable only once, as companies are expected to develop or obtain the technology to perform asset adequacy analyses in a timely fashion, and thereby file the opinion with the annual statement. Because the company failing to meet the exemption criteria had been exempt in the prior year, there is little risk to the public from this delayed filing date. These

requirements are based upon the NAIC model regulation.

Item C restates the provisions of the Act which allow the Commissioner to accept the actuarial opinion of a foreign or alien company filed in another state if the Commissioner determines that the opinion meets the requirements applicable to domestic companies (in essence, this would apply if the other state had enacted both the changes to the model act and the new model regulation).

It is important to note that all of these general requirements, and the parts which follow, are in accordance with the national model regulation, in order to ensure economies of effort and cost, and to promote consistency and meaningful communication between the states which will ultimately adopt the model regulation. Adopting the model regulation in this instance is the most effective means to ensure this uniformity and efficiency in communication.

Subpart 2. Qualified Actuary. This subpart defines the requirements for a qualified actuary.

Item A requires the actuary to be a member in good standing of the American Academy of Actuaries. The American Academy of Actuaries is the professional organization which is responsible for, among other things, the professional conduct, the standards of practice, and the expressions of professional actuarial opinions as they relate to its member actuaries.

Item B requires that the actuary be qualified, through experience and training, under the standards of the American Academy of Actuaries to sign statements of actuarial opinion for life and health insurance company annual statements.

Item C requires that the actuary be familiar with the valuation requirements applicable to life and health insurance companies, which includes the Standard Valuation Law provisions. This is important to distinguish the experience required of the actuary as specifically relating to life and health insurance areas.

Item D is required because even though an actuary may apparently satisfy the requirements in items A through C above, there may be evidence that the actuary has violated the law or has not met the standards established for sound and reliable actuarial practices. Item D sets forth specific areas that could cause an actuary to fail to meet the definition of "qualified actuary." These standards are identical to those required in the NAIC model regulation and are necessary to ensure the integrity of actuarial opinions required under the enabling statute. It is important to note that before the commissioner can use any of the criteria listed under Item D to find that an actuary is "unqualified," appropriate notices and hearings must have been provided to the actuary, as may be required under the Administrative Procedures Act or other areas of applicable law. This protects the actuary's right to due process.

Item E excludes from the definition of "qualified actuary" any actuary who fails to notify the Commissioner if the commissioner of any other state has taken action as stated in item D of this subpart to disqualify the actuary. An actuary who fails to comply with Minnesota law to provide such disclosure is a risk to the integrity of the actuarial opinion system. Accordingly, it is necessary to keep such actuaries from rendering actuarial opinions under these rules.

Subpart 3. Appointed Actuary. The individual who is designated as appointed actuary by the company is central to the entire process of rendering the actuarial opinion. This is the actuary that the company appoints to perform the professional work required to render the opinion. It is this individual who is responsible for the opinion and, if applicable, the supporting memorandum describing the asset adequacy analysis which was performed. The rules outline the procedures which the company must follow relative to this important appointment.

Subpart 4. Standards for asset adequacy analysis. This subpart makes it clear that the actuary must follow the standards set by the Actuarial Standards Board. The Actuarial Standards Board is an independent entity within the American Academy of Actuaries, which, among other things, is charged to direct, manage, and identify the need for the development of standards of practice in all areas of actuarial science, and to determine, publish, review, eliminate,

etc., such standards.

In this regard items A and B require that the asset adequacy analysis required by these rules conform to the standards of the Actuarial Standards Board, and to the methods of analysis contained in those standards which are appropriate for the purpose of asset adequacy analysis. The Actuarial Standards Board is the authority for standards setting relative to cash flow testing, which is also referred to as adequacy analysis.

Subpart 5. Liabilities to be covered.

Item A identifies the reserves which are to be opined upon and where they are found in the annual statements filed by the company.

Item B provides for the reporting of additional reserves, over and above those calculated according to specified Act provisions, which the actuary determines are required based upon the results of an asset adequacy analysis.

Because this is a new requirement for the industry as a whole, item C allows for a three year phase-in period which will end December 31, 1994. This phase-in period is provided for the company to gradually (i.e., 1/3 per year) establish the additional reserves the actuary determines are necessary. This is needed to temper the impact on a company's surplus, and is in accordance with the model regulation. In other words, each state which adopts the

model regulation will allow the same three year period for this purpose, beginning with the year the regulation is effective in that state.

Item D provides for the release of additional reserves which the actuary determines are no longer necessary, but requires the disclosure of the released reserves, with the details being covered in the actuarial opinion. The rules state that the release of such reserves is not to be considered an adoption of a lower standard of valuation.

PART 2711.0060 REQUIRED OPINIONS

Subpart 1. General. This subpart restates the requirement specified in the Act for every company doing business in the state to submit the opinion of an appointed actuary.

Subpart 2. Company categories. This subpart defines four categories of companies, denoted as categories A, B, C and D, based upon the amount of admitted assets. The first three are considered small companies and have admitted assets not greater than $500 million. These definitions are needed so that small companies may determine whether or not they satisfy the exemption tests discussed in the next subpart.

Subpart 3. Exemption eligibility tests.

Based upon satisfying the provisions contained in items A and B,

companies in size categories A (admitted assets that do not exceed $20 million) and B (admitted assets that exceed $20 million but do not exceed $100 million), respectively, could be exempted from submitting an actuarial opinion based upon an asset adequacy analysis. The criteria for exemption are described in item C.

Item C specifies that an exemption is available only if the company satisfies stringent ratio requirements for capital and surplus and non-investment grade bonds, both of which vary by company size, and for reserves and liabilities for annuities and deposits. There is also a check for the company not being an NAIC first or second priority examination company in the last two years. These exemption eligibility tests, including the stipulated ratios, are consistent with the model regulation and generally allow those small companies with strong ratios (i.e., apparent evidence of sound financial condition) to avoid the effort and expense involved in performing the asset adequacy analysis. Because the criteria are rigorous, and due to the fact that there are new methods of auditing within the Department, there is little risk to the public from the exemption from an asset adequacy analysis which is available to these smaller companies.

Item D requires that smaller companies in size categories A or B which fail to meet the exemption tests must submit an actuarial opinion including an asset adequacy analysis.

Item E allows small companies in the largest category ($100-500 million in admitted assets), which have submitted an actuarial opinion based upon an asset adequacy analysis, but which meet the exemption criteria, to file such an opinion only once every three years as long as the exemption tests continue to be met.

Item F merely directs the company preparing an actuarial opinion to comply with the appropriate part of the rules, depending on the company's exemption status.

Subpart 4. Large companies. In this subpart companies with over $500 million in admitted assets are directed to file an actuarial opinion based upon an asset adequacy analysis. This size limit was chosen because companies larger than $500 million in assets not only can afford to, but should be required to perform an asset adequacy analysis, in order for the qualified actuary to render an opinion in accordance with the professional standards of the Actuarial Standards Board. Large companies are more likely to be diverse enough in their product offerings and investment portfolio, that such an analysis would be important for the actuary to prove that the company can meet its contractual obligations. Once again, this is consistent with the NAIC model regulation.

PART 2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET ADEQUACY ANALYSIS

In the prior part, small companies meeting certain ratio and other

requirements could be exempted from filing an actuarial opinion based upon an asset adequacy analysis. In these cases, where the companies are small enough and evidence financial soundness based upon ratios and not being a first or second priority company as described therein, so as not to present a great risk to the public, the qualified actuary must still file an opinion in accordance with the provisions of the Act. This part specifies the type of actuarial opinion which needs to be submitted by companies which do not perform an asset adequacy analysis, because they have satisfied the exemption requirements specified in part 2711.0060.

Subpart 1. General description. This subpart describes the contents of an actuarial opinion not including an asset adequacy analysis, including the identification of the appointed actuary, a paragraph stating that the company is exempt from filing an opinion based upon an asset adequacy analysis and that this opinion is rendered in accordance with part 2711.0070, scope paragraphs covering the subjects upon which the opinion is to be expressed and the appointed actuary's work, and an opinion paragraph as required by subdivision 2a of the Act.

Subpart 2. Recommended language. Subpart 2 contains recommended language for the opinion expressed under this part 2711.0070. An actuary rendering an opinion must use the recommended language to comply with the both the standards of the American Academy of Actuaries and the Actuarial Standards Board. In addition, failure

to use the recommended language could leave some doubt as to whether the actuary has performed all of the evaluations that the Act requires, and could bring the validity the actuary's opinion into question.

Item A includes recommended opening paragraphs for company actuaries and consulting actuaries.

Item B is required to correctly document that the opinion is not based upon an asset adequacy analysis.

Item C is needed to provide instruction to the appointed actuary in identifying the reserves to which the appointed actuary is expressing an opinion.

Items D and E contain recommended language so that the appointed actuary can properly describe whether or not reliance has been placed upon others with respect to the examination of the underlying records. In the instance where reliance has been placed upon another, item E directs the actuary to obtain a certification in the form specified in item J.

Item F contains the specific language which the appointed actuary should include in the opinion paragraph. While this language is in accordance with both the model regulation and the standards of the American Academy of Actuaries, it is also needed in these rules

to be certain the appointed actuary is in compliance with Minnesota Statutes Section 61A.25.

Item G provides recommended language to the appointed actuary who is rendering an opinion which is not based upon an asset adequacy analysis. Included is the language and the calculations which need to be complied with to document that the company is indeed exempt from submitting an actuarial opinion based upon an asset adequacy analysis. This is where the actuary must show that the ratios described in part 2711.0060 meet the exemption requirements, and also certify that, to the actuary's knowledge, the company is not a first or second priority company as described in the rule.

Item H specifies for the appointed actuary what language is to be included in the opinion, if there has been a change in the actuarial assumptions from those previously employed.

Item I describes what has to be done if the appointed actuary is unable to form an opinion, or if the opinion is adverse or qualified.

PART 2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS

Subpart 1. General description. This subpart contains the components of a statement of actuarial opinion which is based upon

an asset adequacy analysis. Many of the same required components are identified in the lettered items as for an opinion which is not so based, as described in part 2711.0070 above; however, there are important differences pertaining to the asset adequacy analysis with which the appointed actuary needs to comply. These include a delineation of the reserves and related items which have been analyzed for asset adequacy and the method of analysis, as well as those reserves and items which have not been so analyzed. Most importantly, the opinion will require the appointed actuary to render an opinion with respect to the adequacy of the supporting assets to mature the liabilities (i.e., meet the contractual obligations, as was described in the "Facts Establishing Need and Reasonableness" section of this Statement).

In item E the appointed actuary is also directed to add paragraphs if the opinion is qualified; if reserves of different products or lines have been aggregated for asset adequacy analysis; if there has been reliance upon other statement reserves such as the asset valuation reserve or the interest maintenance reserve; if there has been an inconsistency in the method of analysis or the basis of asset allocation; if additional reserves held as a result of a prior asset adequacy analysis are to be released; or if the appointed actuary chooses to add a description of the assumptions which form the basis of the opinion. Such a description would be added by the actuary if, in the actuary's professional opinion, it would be required for the opinion to be in full compliance with the

standards of the Actuarial Standards Board.

Subpart 2. Recommended language. This subpart expands upon the outline of the prior subpart, and describes for the appointed actuary the detailed requirements for an opinion covered by this part 2711.0080. Without this, the actuary would be uncertain of accurate compliance with the provisions of the Act relating to statements of actuarial opinion based upon an asset adequacy analysis.

Item A provides recommended opening paragraphs covering the appointed actuary's relationship to the company and qualifications to sign the opinion.

Item B contains recommended scope language, as well as a table format to detail all the reserves and liabilities which have been subjected to asset adequacy analysis, any additional reserves which are determined by the appointed actuary to be required as a result of such analysis, and other statement reserves which might have been relied upon.

Item C provides the required language for the appointed actuary to identify other experts which have been relied upon, with subpart 5 including the language which is to be followed by the expert in making the appropriate statement to be included in the opinion.

Items D and E cover the language requirements for the appointed actuary relative to the examination of the underlying asset and liability records. If the appointed actuary has relied upon the work of a third person or entity, the rules provide the form to indicate this, and prescribe that subpart 5 shall be complied with to make the appropriate statement to be included in the opinion.

Item F contains the specific language which is to be included in the opinion paragraph. While the language is in accordance with both the model regulation and the standards of the American Academy of Actuaries, it is needed in these rules to be certain the appointed actuary is in compliance with Minnesota Statutes Section 61A.25.

Subpart 3. Assumptions for new issues. When performing an asset adequacy analysis, the actuary is called upon to use professional judgment in making assumptions in accordance with the standards as prescribed by the Actuarial Standards Board. This subpart allows the appointed actuary to adopt different actuarial assumptions for new issues, claims or liabilities, without such adoption being termed a change in actuarial assumptions within the meaning of part 2711.0080. This is important because the recommended opinion language in this part includes statements as to the consistency of assumptions with those employed the prior year end, and requires disclosure of any inconsistencies. The use of different assumptions pursuant to this subpart is not considered a change

requiring disclosure.

Subpart 4. Adverse opinions. This subpart describes what has to be done if the appointed actuary is unable to form an opinion, or if the opinion is adverse or qualified. This would occur if, based upon the asset adequacy analysis, the actuary was unable to properly certify that the assets supporting the reserve were sufficient to mature the future contractual obligations of the company.

Subpart 5. Reliance on data furnished by other persons. This subpart specifies that the appointed actuary is to obtain a reliance statement in the form described in the subpart, if the actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of the policies in force, and/or asset-oriented information.

PART 2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS

As described earlier in this Statement, an actuarial memorandum is prepared by the appointed actuary in support of an actuarial opinion based upon an asset adequacy analysis. Such a memorandum will contain the details of the methods, assumptions and results used by the actuary in rendering the opinion. As stated earlier the opinion is the actuary's certification as to the adequacy of

the assets supporting reserves to mature the future contractual obligations of the company (i.e., provide assurance that the company will be able to make future policyholder payments as they come due). Such a memorandum must be prepared in order for the actuary to be in compliance with the provisions of these rules and the professional standards of the Actuarial Standards Board.

Subpart 1. General. In accordance with the Act, item A of this subpart requires the appointed actuary to prepare a memorandum in support of an opinion rendered under part 2711.0080. It specifically allows the Commissioner to examine the memorandum, but not to retain it or consider it a record of the Department of Commerce, or to require its automatic filing. Once again pursuant to the model regulation, these provisions facilitate maintenance of the confidential, and proprietary nature of the company's memorandum. It is important to note that the rule is not creating a new confidentiality provision, but rather is present to encourage cooperation by companies for full disclosure, which will ultimately contribute to greater public protection.

Item B permits the appointed actuary to rely on other actuaries who prepare their own memoranda, as long as they are qualified according to part 2711.0050, subpart 2. This provision eliminates duplication of effort and may reduce costs to parties involved.

Item C permits the Commissioner to designate a qualified actuary to

review the opinion and prepare a supporting memorandum, if no memorandum exists, or if the Commissioner determines that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of these rules.

Item D is needed to specify the status and independence of the reviewing actuary and the disposition of the actuary's work papers, with specific attention to the confidentiality of the work papers.

Subpart 2. Details of the memorandum section documenting asset adequacy analysis. In order to demonstrate that the asset adequacy analysis has been performed in accordance with the standards of the Actuarial Standards Board referred to in part 2711.0050, subpart 4, and any additional standards under these rules, the memorandum must contain specific information. This subpart contains the components which the appointed actuary must include in the actuarial memorandum to be certain of compliance with these rules and the requirements of the Act. These components include detailed information on the reserves and assets; specifics on the basis of the analysis; how rigorous the analysis was for different blocks of business; what the criteria were for determining asset adequacy; the effects of certain factors such as taxes; and the summary of results and conclusions.

Subpart 3. Conformity to standards of practice. This subpart includes specific language with regard to the standards of practice as promulgated by the Actuarial Standards Board, which must be included in the memorandum. The statement described is required so that the actuary certifies that the appropriate standards have been followed.

PART 2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS

Subpart 1. Aggregation. This subpart describes for the appointed actuary the asset aggregation alternatives which may be utilized in performing the asset adequacy analysis. Without the specified alternatives, the appointed actuary would be unable to most efficiently perform the analysis. This is because products or lines of business often have complementary characteristics which can lead to asset inadequacies in one area being offset by asset redundancies in another. Without this aggregation capability (and the choices allowed in the rules), the appointed actuary may be required to render an adverse opinion when in fact no asset inadequacy exists.

Subpart 2. Selection of assets for analysis. This subpart instructs the appointed actuary specifically with respect to the assets which can be analyzed. It requires that assets or portions of assets cannot be used for the analysis of more than one group of reserves, although it allows allocations of assets for that purpose. Except where assets supporting the interest maintenance

reserve and the asset valuation reserve are used as described in subpart 3, it requires that the annual statement value of the assets held in support of reserves be no greater than the annual statement value of the reserves which are subjected to the analysis. If the method of allocation of assets is not consistent from year to year, this subpart requires the appointed actuary to describe such inconsistency.

Subpart 3. Use of assets supporting interest maintenance reserve and asset valuation reserve. This subpart instructs the appointed actuary in the use of the assets supporting these reserves in the asset adequacy analysis. It provides for the mandatory use of the interest maintenance reserve assets, and the elective use of the assets supporting the asset valuation reserve if, in the professional opinion of the actuary, such utilization is appropriate. The actuary is required to disclose the amount and selection process for the assets so utilized, and this subpart describes how the actuary is to do so. As has been stated previously these rules conform to the model regulation.

Subpart 4. Required interest scenarios. This subpart requires the appointed actuary to follow the standards of the Actuarial Standards Board relative to performing an asset adequacy analysis. This subpart also specifies for the appointed actuary seven interest rate scenarios which must be used in the actuary's asset adequacy analysis. Specific instruction is provided for the

actuary with regard to low interest rates (to avoid the possibility of unduly small or even negative rates when decreasing interest rate scenarios are used), and how to determine the beginning yield curve of interest rates.

Subpart 5. Documentation. This subpart specifies a seven year retention period for the documentation of the appointed actuary's analysis. This retention period is in compliance with the NAIC model regulation.

SMALL BUSINESS CONSIDERATIONS

The Actuarial Opinion and Memorandum Rules are applicable only to life insurance companies and fraternal benefit societies authorized to do business or doing business in Minnesota. Given the solvency and capital requirements for such companies to do business in Minnesota, the Department does not believe that there is any way that the rules would be applicable to a small business as defined under Minnesota Statutes Section 14.115.

Accordingly, in considering matters raised under Minnesota Statutes Section 14.115 subd. 2, we determined that there was no need to establish less stringent compliance or reporting requirements for small businesses under item (a) as no small businesses would be subject to the rules. Even if they were, since the purpose of the rules is to protect the policyholders and the solvency of the

companies involved, less stringent compliance and reporting requirements would be at odds with the purposes and intent of the rules and enabling legislation.

As to item (b), there is no need to establish less stringent schedules or deadlines for compliance or reporting requirements for small businesses, since no small businesses would be subject to the rules. Even if small businesses do exist that would be subject to the rules, relaxed deadlines would conflict with the overall purpose of the rules and the enabling statute to protect policyholders and the solvency of insurance companies.

Item (c) concerning the consolidation or simplification of compliance or reporting requirements would not apply to the proposed rules since there would be no small businesses subject to the rules. Consolidation or simplification of the compliance and reporting standards, even if small businesses were subject to the rules, would critically impair the effectiveness of the rules to protect the public and require regulated entities to justify their financial positions via actuarial analysis and opinion.

As to item (d), since no small businesses would be subject to the rules, we need not establish performance standards specifically for small businesses to replace operational standards required by the rules. Uniform performance standards, as required by the rules, would be necessary even for small businesses to maintain protection

for policyholders and consumers from insolvent insurers.

Item (e) requires a consideration as to whether small businesses should be exempt from any or all requirements of the rules. Although we need not address this issue (because no small businesses will be affected by the rules), it is once again important to note that the purpose of the rules and the enabling statute would be thwarted if small businesses were exempt from these rules. Protection of the solvency of regulated entities through regulations such as the rules proposed here promotes public confidence and reduces the likelihood of policyholders losing coverage.

Finally, comment was solicited as part of the Notice of Intent to Adopt the Rules Without a Public Hearing regarding the impact the rules would have on small businesses. The Department received no comments on this issue.

STATE OF MINNESOTA
Office Memorandum

Department of Commerce

TO: Alan I. Gilbert
Attorney General's Office

FROM: Donna M. Watz
Staff Attorney DMW

DATE: December 3, 1992

RE: Proposed Permanent Rules Relating to
Actuarial Opinion and Memorandum

Pursuant to Minnesota Rules section 2010.0300, we submit the following documents for your review regarding the above-captioned proposed rules.

1. Copy of the Proposed Rules with the Revisor's Certificate;
2. Notice of Intent to Adopt Rules Without a Public Hearing;
3. Statement of Need and Reasonableness;
4. Affidavit of Mailing Notice of Intent to Adopt Rules Without Public Hearing and Certificate of Mailing List;
5. Copy of Notice of Intent to Adopt Rules Without Public Hearing as published in the State Register;
6. Four copies of the Rules as adopted;
7. Findings of Fact, Conclusions and Order Adopting Rules;
8. Declaration of Attorney General.

As indicated in the Findings of Fact, Conclusions and Order Adopting Rule, please note that we received no written comments and no requests for notice of submission of the rules to the Attorney General.

Please call me as soon as you have completed your review of this file and I will make arrangements to pick up the signed Declaration of Counsel. Thank you.

DMW:joc

Department of Commerce

In the Matter of the Proposed Adoption of the Rules Relating to Actuarial Opinion and Memorandum

NOTICE OF INTENT TO ADOPT RULES WITHOUT A PUBLIC HEARING

(1) Notice is hereby given that the Department of Commerce intends to adopt the above-entitled rules without a public hearing following the procedures set forth in the Administrative Procedure Act for adopting rules without a public hearing in Minnesota Statutes, Sections 14.22 to 14.28. The statutory authority to adopt the rules is Minnesota Statute Sections 45.023, and 61A.25 subd. 2a.

(2) All persons have 30 days in which to submit comment in support of or in opposition to the proposed rules or any part or subpart of the rules. Comment is encouraged. (3) Each comment should identify the portion of the proposed rules addressed, the reason for the comment, and any change proposed.

Any person may make a written request for a public hearing on the rules within the 30-day comment period. (4) If 25 or more persons submit a written request for a public hearing within the 30-day comment period, a public hearing will be held unless a sufficient number withdraw their request in writing. (6) Any person requesting a public hearing should state his or her name and address, and is encouraged to identify the portion of the proposed rules addressed, the reason for the request, and any change proposed. (7) If a public hearing is required, the department will proceed pursuant to Minnesota Statutes Section 14.131 to 14.20.

(5) Comments or written requests for a public hearing must be submitted on or before November 25, 1992 to:

Donna M. Watz
Staff Attorney
Minnesota Department of Commerce
133 East Seventh Street
St. Paul, Minnesota 55101
(612) 297-1118

(8) The proposed rules may be modified if the modifications are supported by data and views submitted to the agency and do not result in a substantial change in the proposed rules as noticed.

(11) A copy of the proposed rules is attached to this notice.

(12) A Statement of Need and Reasonableness that describes the need for and reasonableness of each provision of the proposed rules and identifies the data and information relied upon to support the proposed rules has been prepared and is available upon request from Donna M. Watz, Staff Attorney, at the above referenced address.

(9) If no hearing is required, upon adoption of the rules, the rules and the required supporting documents will be submitted to the Attorney General for review as to legality and form to the extent the form related to legality. Any person may request notification of the date of submission to the Attorney General. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the adopted rules, must submit the written request to Donna M. Watz, Staff Attorney at the above-reference address.

10/12/92
Date:

Bert J. McKasy
Commissioner of Commerce

STATE OF MINNESOTA
Department of Commerce

In the Matter of Proposed Adoption of the Rules Relating to Actuarial Opinion and Memorandum

FINDINGS OF FACT, CONCLUSIONS, AND ORDER ADOPTING RULES WITHOUT PUBLIC HEARING

Notice of the Commissioner's intent to adopt the above-entitled rules was published in the State Register on October 26, 1992 and was sent by United States mail to all persons on the list maintained by the Department of Commerce pursuant to Minnesota Statutes, section 14.14, subdivision 1a and 14.22 on October 22, 1992. The Statement of Need and Reasonableness was prepared before the Notice of Intent to Adopt a Rule without a Public Hearing was mailed to all persons on the rulemaking mailing list and published in the State Register and was available to the public.

All persons were given the opportunity to submit comments on the rules for 30 days after notice of proposed rulemaking. The department received no written comments on the rules. No requests for a public hearing on the rules and no requests for notice of submission to the Attorney General were received by the department.

Based on the comments and evidence in the record before the department, I find the following:

1. Subpart 2 of Part 2711.0030 of the rules has been changed to make the text clearer and more grammatically correct. The reference to "this chapter" has been amended to state a more specific cite within the proposed rules pertaining to the exemption for certain companies from filing requirements. All other changes to this subpart have been made to correct grammar and to make the subpart easier to read. None of the amendments to this subpart are controversial or constitute substantial changes from the rules as originally published in the State Register.

2. The above-captioned rules, as amended, are needed and reasonable.

NOW, THEREFORE, IT IS ORDERED that the rules identified as the Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum are adopted this 3rd day of December, 1992, pursuant to the authority vested in me by Minnesota Statutes, sections 61A.25 and 45.023.

Bert J. McKasy
Commissioner of Commerce

In the Matter of Adoption of Rules Relating to Actuarial Opinion and Memorandum

DECLARATION OF COUNSEL

I, PRENTISS COX, Special Assistant Attorney General, do hereby declare that I have examined the above-captioned rule, and the supporting rulemaking record, and that, based on my examination, the Administrative Procedure Act and Minnesota Rules, chapter 2010 have been followed. Any exceptions are listed below. For Attorney General billing purposes, the four-digit docket code is 0119.

Dated: December 3, 1992

PRENTISS COX
Special Assistant Attorney General

bj9

The Minnesota

State Register

Department of Administration—Print Communications Division



Rules edition
Published every Monday
(Tuesday if Monday is a holiday)

Monday 26 October 1992

Volume 17, Number 17

Pages 865-940

Contents

Minnesota Rules: Amendments & Additions

Issues 14-17 inclusive (issues #1-13 appeared in #13) ... 868

Proposed Rules

Agriculture Department
Certified seed potatoes ... 870

Commerce Department
Actuarial opinion and memorandum ... 872

Education Department
Special education; revision of certain criteria ... 885

Health Department
Health maintenance organizations ... 888
Merit system ... 897
Infectious waste ... 900

Human Services Department
Merit system ... 913

Public Safety Department
Merit system ... 919

Adopted Rules

Agriculture Department
Advocate fees ... 922

Human Services Department
State grants for mental health services ... 922

Errata

Commerce Department
Correction to notice of intent to adopt rules without a public hearing on rules relating to real estate appraiser licensing and education ... 922

Emergency Rules

Labor and Industry Department
Workers compensation; managed care ... 923

Official Notices

Minnesota Comprehensive Health Association
Meeting of the executive committee ... 928
Meeting of the actuarial committee ... 928
Meeting of the finance committee ... 928
Meeting of the research committee ... 929

Health Department
Meeting notice of the conflict of interest advisory panel ... 929

Human Services Department
Additions to the notice of health services requiring prior authorization for MA/GAMC ... 929

Labor and Industry Department
Prevailing wage determinations for construction projects . 931

Trade and Economic Development Department
Annual meeting cancelled of the Minnesota Jobs Skills Partnership ... 931

Professional, Technical & Consulting Contracts

Natural Resources Department
Proposals sought for technical assistance ... 932

Public Safety Department
Proposals sought for management of intensive probation grant program ... 933

Non-State Public Bids and Contracts

Minnesota Workers' Compensation Assigned Work Plan
Proposals sought for managed care services ... 934

State Contracts & Advertised Bids

Administration Department
Materials Management Division: Commodities and requisitions open for bid ... 934

I. "Damage" means any defect or combination of defects which materially affects the appearance of the individual potato or which cannot be removed without a loss of more than five percent of the total weight of the potato including the peel covering the defective area. Any one of the following defects or any combination of defects, the seriousness of which exceeds the maximum allowed for any one defect, shall be considered as damage:

[For text of subitems (1) and (2), see M.R.]

(3) air cracks ~~which are deep, or shallow air cracks which materially affect the appearance of the individual~~ when removal causes a loss of more than five percent of the total weight of the potato;

[For text of subitems (4) to (7), see M.R.]

J. "Serious damage" means any defect or combination of defects which seriously affects the appearance of the individual potato or which cannot be removed without a loss of more than ten percent of the total weight of the potato including the peel covering the defective area. Any one of the following defects or any combination of defects, the seriousness of which exceeds the maximum allowed for any one defect shall be considered as serious damage:

[For text of subitems (1) to (5), see M.R.]

(6) surface or pitted scab, individually or in combination, which covers an area of more than twenty-five percent of the surface of the potato in the aggregate, or causes a loss of more than ten percent of the total weight of the potato including peel covering defective area;

(7) wireworm and air cracks when removal causes a loss of more than ten percent of the total weight of the potato.

Department of Commerce

Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum

Notice of Intent to Adopt Rules Without a Public Hearing

NOTICE IS HEREBY GIVEN that the Department of Commerce intends to adopt the above-entitled rules without a public hearing following the procedures set forth in the Administrative Procedure Act for adopting rules without a public hearing in *Minnesota Statutes*, sections 14.22 to 14.28. The statutory authority to adopt the rules is *Minnesota Statutes*, sections 45.023, and 61A.25 subd. 2a.

All persons have 30 days in which to submit comment in support of or in opposition to the proposed rules or any part or subpart of the rules. Comment is encouraged. Each comment should identify the portion of the proposed rules addressed, the reason for the comment, and any change proposed.

Any person may make a written request for a public hearing on the rules within the 30-day comment period. If 25 or more persons submit a written request for a public hearing within the 30-day comment period, a public hearing will be held unless a sufficient number withdraw their request in writing. Any person requesting a public hearing should state his or her name and address, and is encouraged to identify the portion of the proposed rules addressed, the reason for the request, and any change proposed. If a public hearing is required, the department will proceed pursuant to *Minnesota Statutes*, section 14.131 to 14.20.

Comments or written requests for a public hearing must be submitted on or before November 25, 1992 to:

Donna M. Watz
Staff Attorney
Minnesota Department of Commerce
133 East Seventh Street
St. Paul, Minnesota 55101
(612) 297-1118

The proposed rules may be modified if the modifications are supported by data and views submitted to the agency and do not result in a substantial change in the proposed rules as noticed.

A copy of the proposed rules is attached to this notice.

A STATEMENT OF NEED AND REASONABLENESS that describes the need for and reasonableness of each provision of the proposed rules and identifies the data and information relied upon to support the proposed rules has been prepared and is available upon request from Donna M. Watz, Staff Attorney, at the above referenced address.

If no hearing is required, upon adoption of the rules, the rules and the required supporting documents will be submitted to the Attorney General for review as to legality and form to the extent the form related to legality. Any person may request notification of

the date of submission to the Attorney General. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the adopted rules, must submit the written request to Donna M. Watz, Staff Attorney at the above-reference address.

Dated: 12 October 1992

Bert J. McKasy
Commissioner of Commerce

Rules as Proposed (all new material)

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

2711.0020 PURPOSE.

The purpose of this chapter is to prescribe:

A. guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with *Minnesota Statutes*, section 61A.25, subdivisions 2a and 2b, and for memoranda in support of these opinions;

B. guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from *Minnesota Statutes*, section 61A.25, subdivision 2b; and

C. rules applicable to the appointment of an appointed actuary.

2711.0030 APPLICATION AND SCOPE.

Subpart 1. **Generally.** This chapter applies to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state. This chapter applies to all annual statements filed with the office of the commissioner after the effective date of this chapter. Except with respect to companies which are exempted pursuant to part 2711.0060, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with part 2711.0080, and a supporting memorandum in accordance with part 2711.0090, shall be required each year. A company so exempted must file a statement of actuarial opinion pursuant to part 2711.0070.

Subp. 2. **Opinions from exempt companies.** Notwithstanding 1, the commissioner shall require a company otherwise exempt pursuant to this chapter to submit a statement of actuarial opinion and to prepare a supporting memorandum in accordance with parts 2711.0080 and 2711.0090 if, after a financial analysis of the company the commissioner determines whether the insurer's asset portfolio when viewed in light of current economic conditions is not of sufficient value, liquidity, or diversity to assure the company's ability to meet its outstanding obligations as they mature, an asset adequacy analysis is necessary with respect to the company.

2711.0040 DEFINITIONS.

Subpart 1. **Scope.** For the purposes of this chapter, the terms in this part have the meanings given them.

Subp. 2. **Actuarial Standards Board.** "Actuarial Standards Board" is the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.

Subp. 3. **Annual statement.** "Annual statement" means that statement required by *Minnesota Statutes*, section 60A.13, to be filed by the company with the office of the commissioner annually.

Subp. 4. **Appointed actuary.** "Appointed actuary" means an individual who is appointed or retained in accordance with part 2711.0050, subpart 3, to provide the actuarial opinion and supporting memorandum as required by *Minnesota Statutes*, section 61A.25, subdivisions 2a and 2b.

Subp. 5. **Asset adequacy analysis.** "Asset adequacy analysis" means an analysis that meets the standards and other requirements in part 2711.0050, subpart 4. It may take many forms, including, but not limited to, cash flow testing, sensitivity testing, or applications of risk theory.

Subp. 6. **Commissioner.** "Commissioner" means the commissioner of commerce.

Subp. 7. **Company.** "Company" means a life insurance company, fraternal benefit society, or reinsurer subject to this chapter.

Subp. 8. **NAIC.** "NAIC" means the National Association of Insurance Commissioners.

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

Subp. 9. **Noninvestment grade bonds.** "Noninvestment grade bonds" are those designated as class 3, 4, 5, or 6 by the NAIC Securities Valuation Office.

Subp. 10. **Qualified actuary.** "Qualified actuary" means an individual who meets the requirements in part 2711.0050, subpart 2.

2711.0050 GENERAL REQUIREMENTS.

Subpart 1. **Submission of statement of actuarial opinion.**

A. There is to be included on or attached to page 1 of the annual statement for each year the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with part 2711.0080. A company exempted pursuant to part 2711.0060 from submitting a statement of actuarial opinion in accordance with part 2711.0080 shall include on or attach to page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with part 2711.0070.

B. If in the previous year a company provided a statement of actuarial opinion in accordance with part 2711.0070, and in the current year fails the exemption criteria of part 2711.0060, subpart 3, item A, B, or E, to again provide an actuarial opinion in accordance with part 2711.0070, the statement of actuarial opinion in accordance with part 2711.0080 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with part 2711.0070 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with part 2711.0080.

C. In the case of a statement of actuarial opinion required to be submitted by a foreign or alien company, the commissioner may accept the statement of actuarial opinion filed by the company with the insurance supervisory regulator of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

Subp. 2. **Qualified actuary.** A "qualified actuary" is an individual who:

A. is a member in good standing of the American Academy of Actuaries;

B. is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing these statements;

C. is familiar with the valuation requirements applicable to life and health insurance companies;

D. has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:

(1) violated any provision of, or any obligation imposed by, the state insurance law or other law in the course of the actuary's dealings as a qualified actuary;

(2) been found guilty of fraudulent or dishonest practices;

(3) demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

(4) submitted to the commissioner during the past five years, pursuant to this chapter, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this chapter including standards set by the Actuarial Standards Board; or

(5) resigned or been removed as an actuary within the past five years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards of the American Academy of Actuaries; and

E. has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under item D.

Subp. 3. **Appointed actuary.** An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements in subpart 2. Once the notice is furnished, no further notice is required with respect to this person, if the company gives the commissioner timely written notice if the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements in subpart 2. If a person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice must so state and give the reasons for replacement.

Subp. 4. **Standards for asset adequacy analysis.** The asset analysis required by this chapter must:

A. conform to the standards of practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under this chapter, which standards are to form the basis of the statement of actuarial opinion in accordance with part 2711.0080; and

B. be based on methods of analysis considered appropriate for these purposes by the Actuarial Standards Board.

Subp. 5. **Liabilities to be covered.**

A. Under authority of *Minnesota Statutes*, section 61A.25, subdivisions 2a and 2b, the statement of actuarial opinion applies to all in-force business on the statement date regardless of when or where issued, for example, reserves of exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part 1, and equivalent items in the separate account statement or statements.

B. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods in *Minnesota Statutes*, section 61A.25, subdivisions 4, 4a, 7, 8, and 9, the company shall establish this additional reserve.

C. For years ending before December 31, 1994, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

(1) December 31, 1992, the additional reserve divided by three; and

(2) December 31, 1993, two times the additional reserve divided by three.

D. Additional reserves established under item B or C and considered not necessary in subsequent years may be released. Amounts released must be disclosed in the actuarial opinion for the applicable year. The release of these reserves is not considered an adoption of a lower standard of valuation.

2711.0060 REQUIRED OPINIONS.

Subpart 1. **General.** In accordance with *Minnesota Statutes*, section 61A.25, subdivisions 2a and 2b, every company doing business in this state shall annually submit the opinion of an appointed actuary as provided for by this chapter. The type of opinion submitted is determined by this part and must be in accordance with this chapter.

Subp. 2. **Company categories.** For purposes of this chapter, companies shall be classified according to items A to D based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable.

A. Category A consists of those companies whose admitted assets do not exceed $20,000,000.

B. Category B consists of those companies whose admitted assets exceed $20,000,000 but do not exceed $100,000,000.

C. Category C consists of those companies whose admitted assets exceed $100,000,000 but do not exceed $500,000,000.

D. Category D consists of those companies whose admitted assets exceed $500,000,000.

Subp. 3. **Exemption eligibility tests.**

A. A category A company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which these criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.10.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.30.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

B. A category B company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which the criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.07.

(2) The ratio of the sum of reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.40.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

C. A category A or B company that meets all of the criteria in item A or B, whichever is applicable, is exempted from submission of a statement of actuarial opinion in accordance with part 2711.0080 unless the commissioner specifically indicates to the company that the exemption is not to be taken.

D. A category A or B company that for any year is not exempted under item C shall be required to submit a statement of actuarial opinion in accordance with part 2711.0080 for the year for which it is not exempt.

E. A category C company that, after submitting an opinion in accordance with part 2711.0080, meets all of the criteria in subitems (1) to (4) shall not be required, unless required in accordance with item F, to submit a statement of actuarial opinion in accordance with part 2711.0080 more frequently than every third year. A category C company which fails to meet all of the criteria in subitems (1) to (4) for any year shall submit a statement of actuarial opinion in accordance with part 2711.0080 for that year. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.05.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.50.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of the capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

F. A company which is not required by this part to submit a statement of actuarial opinion in accordance with part 2711.0080 for any year shall submit a statement of actuarial opinion in accordance with part 2711.0070 for that year unless as provided for by part 2711.0030, subpart 2, the commissioner requires a statement of actuarial opinion in accordance with part 2711.0080.

Subp. 4. **Large companies.** A category D company shall submit a statement of actuarial opinion in accordance with part 2711.0080 for each year.

2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion required by this part consists of a paragraph identifying the appointed actuary and the actuary's qualifications; a regulatory authority paragraph stating that the company is exempt pursuant to this chapter from submitting a statement of actuarial opinion based on an asset adequacy analysis and that the opinion, which is not based on an asset adequacy analysis, is rendered in accordance with part 2711.0070; a scope paragraph identifying the subjects on which the opinion is to be expressed and describing the scope of the appointed actuary's work; and an opinion paragraph expressing the appointed actuary's opinion as required by *Minnesota Statutes*, section 61A.25, subdivision 2a.

Subp. 2. **Recommended language.** The following language provided is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this part. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary must use language which clearly expresses the actuary's professional judgment. However, the opinion must retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should indicate the appointed actuary's relationship to the company. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

> "I, [name of actuary], am [title] of [name of company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health companies."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain a statement such as:

"I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The regulatory authority paragraph should include a statement such as the following: "This company is exempt pursuant to *Minnesota Rules*, part 2711.0060, of the Minnesota Department of Commerce from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with *Minnesota Rules*, part 2711.0070."

C. The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19..."

The paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

(1) aggregate reserve and deposit funds for policies and contracts included in exhibit 8;

(2) aggregate reserve and deposit funds for policies and contracts included in exhibit 9;

(3) deposit funds, premiums, dividend and coupon accumulations, and supplementary contracts not involving life contingencies included in exhibit 10; and

(4) policy and contract claims—liability end of current year included in exhibit 11, part 1.

D. If the appointed actuary has examined the underlying records, the scope paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force prepared by the company or a third party, the scope paragraph should include a sentence such as one of the following:

"I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. (See accompanying affidavit by a company officer.) In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

The statement of the person certifying shall follow the form indicated by item J.

F. The opinion paragraph should include the following:

"In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below; and

(5) include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

G. The concluding paragraph should document the eligibility for the company to provide an opinion as provided by this part. It shall include the following:

"This opinion is provided in accordance with *Minnesota Rules*, part 2711.0070. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them.

Eligibility for *Minnesota Rules*, part 2711.0070, is confirmed as follows:

(a) The ratio of the sum of capital and surplus to the sum of cash and invested assets is [insert amount], which equals or exceeds the applicable criterion based on the admitted assets of the company (*Minnesota Rules*, part 2711.0060, subpart 3).

(b) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is [insert amount], which is less than the applicable criteria based on the admitted assets of the company (*Minnesota Rules*, part 2711.0060, subpart 3).

(c) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is [insert amount], which is less than the applicable criteria of 0.50.

(d) To my knowledge, the NAIC examiner team has not designated the company as a first priority company in any of the two calendar years preceding the calendar for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile, and has provided the necessary NAIC notification.

(e) To my knowledge there is not a specific request from any commissioner requiring an asset adequacy analysis opinion.

_____

Signature of Appointed Actuary

_____

Address of Appointed Actuary

_____

Telephone Number of Appointed Actuary"

H. If there has been any change in the actuarial assumptions from those previously employed, that change should be described in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in item F, paragraph (d), to consistency should read as follows:

"...with the exception of the change described on page [...] of the annual statement (or in the preceding paragraph)."

The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

I. If the appointed actuary is unable to form an opinion, the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

J. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion the statement of a company officer or accounting firm who prepared underlying data similar to the following:

"I, [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company
or Accounting Firm

Address of the Officer of the Company
or Accounting Firm

Telephone Number of the Officer of the
Company or Accounting Firm

2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion submitted in accordance with this part shall consist of:

A. a paragraph, as required by subpart 2, item A, identifying the appointed actuary and the actuary's qualifications;

B. a scope paragraph, as required by subpart 2, item B, identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a delineation of the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed;

C. a reliance paragraph, as required by subpart 2, item C, describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures, or assumptions (for example, anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios) supported by a statement of each expert in the form prescribed by subpart 5;

D. an opinion paragraph, as required by subpart 2, item F, expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities; and

E. one or more additional paragraphs as needed in individual company cases if the appointed actuary:

(1) considers it necessary to state a qualification of the actuary's opinion;

(2) must disclose the method of aggregation for reserves of different products or lines of business for asset adequacy analysis;

(3) must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement reserves for asset adequacy analysis;

(4) must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;

(5) must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or

(6) chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

Subp. 2. **Recommended language.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this part. The language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses the actuary's professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should generally indicate the appointed actuary's relationship to the company and the actuary's qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

For a consulting actuary, the opening paragraph should contain a sentence such as:

"I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The scope paragraph should include a statement such as the following:

"I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19... Delineated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

	Asset Adequacy Tested Amounts				Reserves and Liabilities
	Formula Reserves	Additional Actuarial Reserves (a)	Analysis Method (b)	Other Amount	Total Amount (1)+(2)+(3)
Statement Item	(1)	(2)		(3)	(4)
Exhibit 8					
A Life Insurance					
B Annuities					
C Supplementary Contracts Involving Life Contingencies					
D Accidental Death Benefit					
E Disability - Active					
F Disability - Disabled					
G Miscellaneous Total (Exhibit 8 Item 1, Page 3)	_____	_____		_____	_____
Exhibit 9					
A Active Life Reserve					
B Claim Reserve Total (Exhibit 9 Item 2, Page 3)	_____	_____		_____	_____
Exhibit 10					
1 Premiums and Other Deposit Funds					
1.1 Policyholder Premiums (Page 3, Line 10.1)					
1.2 Guaranteed Interest Contracts (Page 3, Line 10.2)					
1.3 Other Contract Deposit Funds (Page 3, Line 10.3)					
2 Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)					
3 Dividend and Coupon Accumulations (Page 3, Line 5)					
Total Exhibit 10	_____	_____		_____	_____

Exhibit 11 Part 1

1	Life (Page 3, Line 4.1)				
2	Health (Page 3, Line 4.2)				
	Total Exhibit 11, Part 1	_____	_____	_____	_____
	Separate Accounts (Page 3, Line 27)	_____	_____	_____	_____
	TOTAL RESERVES	_____	_____	_____	_____

IMR (Page _____ Line _____) _____

AVR (Page _____ Line _____) _____ (c)

Notes:

(a) The additional actuarial reserves are the reserves established under part 2711.0050, subpart 5, item B or C.

(b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in part 2711.0050, subpart 4, by means of symbols which should be defined in footnotes to the table.

(c) Allocated amount."

C. If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as the following:

"I have relied on [name], [title] for [e.g., anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] and, as certified in the attached statement, ..."

or

"I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement."

Such a statement of reliance on other experts should be accompanied by a statement by each of such experts of the form prescribed by subpart 5.

D. If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force and/or asset records prepared by the company or a third party, the reliance paragraph should include a sentence such as:

"I have relied upon listings and summaries [of policies and contracts, of asset records] prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

Such a section must be accompanied by a statement by each person relied upon of the form prescribed in subpart 5.

F. The opinion paragraph should include the following:

"In my opinion the reserves and related actuarial values concerning the statement items identified above:

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and

(5) include provision for all actuarial reserves and related statement items which ought to be established.

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the principal repayments and investment earnings from such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion."

or

"The following material change or changes which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: [Describe the change or changes.]"

Note: Choose one of the above two paragraphs, whichever is applicable.

"The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow all the assumptions used in the analysis."

_____

Signature of Appointed Actuary

_____

Address of Appointed Actuary

_____

Telephone Number of Appointed Actuary

Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this part.

Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion, then the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

Subp. 5. **Reliance on data furnished by other persons.** If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset-oriented information, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared the underlying data similar to the following:

"I, [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete."

_____

Signature of the Officer of the Company
or Accounting Firm

Address of the Officer of the Company
or Accounting Firm

Telephone Number of the Officer of the
Company or Accounting Firm

and/or

"I, [name of officer], [title], of [name of company, accounting firm, or security analyst], hereby affirm that the listings, summaries, and analyses relating to data prepared for and submitted to [name of appointed actuary], in support of the asset-oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete."

Signature of the Officer of the Company,
Accounting Firm, or the Security Analyst

Address of the Officer of the Company,
Accounting Firm, or the Security Analyst

Telephone Number of the Officer of the Company,
Accounting Firm, or the Security Analyst

2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General.**

A. In accordance with *Minnesota Statutes*, section 61A.25, subdivisions 2a and 2b, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of the actuary's opinion regarding the reserves under a part 2711.0080 opinion. The memorandum shall be made available for examination by the commissioner upon the commissioner's request but shall be returned to the company after the examination and shall not be considered a record of the Department of Commerce or subject to automatic filing with the commissioner.

B. In preparing the memorandum, the appointed actuary may rely on, and include as a part of the actuary's own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of part 2711.0050, subpart 2, with respect to the areas covered in the memoranda, and so state in their memoranda.

C. If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this chapter, the commissioner may designate a qualified actuary to review the opinion and prepare a supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but the review shall be directed and controlled by the commissioner.

D. The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner. Any information provided by the company to the reviewing actuary and included in the work papers is considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to *Minnesota Statutes*, section 61A.25, subdivision 2a, clause (j). The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this chapter for any one of the current year or the preceding three years.

Subp. 2. **Details of the memorandum section documenting asset adequacy analysis.** When an actuarial opinion under part 2711.0080 is provided, the memorandum must demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in part 2711.0050, subpart 4, and any additional standards under this chapter. It must specify:

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

A. for reserves:

(1) product descriptions including market description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

(2) source of liability in force;

(3) reserve method and basis;

(4) investment reserves; and

(5) reinsurance arrangements;

B. for assets:

(1) portfolio descriptions, including a risk profile disclosing the quality, distribution, and types of assets;

(2) investment and disinvestment assumptions;

(3) source of asset data; and

(4) asset valuation bases;

C. analysis basis:

(1) methodology;

(2) rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed;

(3) rationale for degree of rigor in analyzing different blocks of business;

(4) criteria for determining asset adequacy; and

(5) effect of federal income taxes, reinsurance, and other relevant factors;

D. summary of results; and

E. conclusions.

Subp. 3. **Conformity to standards of practice.** The memorandum must include the following statement:

"Actuarial methods, considerations, and analyses used in the preparation of this memorandum conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum."

2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS.

Subpart 1. **Aggregation.** For the asset adequacy analysis for the statement of actuarial opinion provided in accordance with part 2711.0080, reserves and assets may be aggregated by either of the methods in item A or B.

A. Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

B. Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(1) are developed using consistent economic scenarios; or

(2) are subject to mutually independent risks, for example, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

In the event of any aggregation, the actuary must disclose in the actuary's opinion that the reserves were aggregated on the basis of the method in item A or B, whichever is applicable, and describe the aggregation in the supporting memorandum.

Subp. 2. **Selection of assets for analysis.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in subpart 3. If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

Subp. 3. **Use of assets supporting Interest Maintenance Reserve and Asset Valuation Reserve.** An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum.

Subp. 4. **Required interest scenarios.** For the purpose of performing the asset adequacy analysis required by this chapter, the qualified actuary shall follow standards adopted by the Actuarial Standards Board; nevertheless, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

A. level with no deviation;

B. uniformly increasing over ten years at a half percent per year and then level;

C. uniformly increasing at one percent per year over five years and then uniformly decreasing at one percent per year to the original level at the end of ten years and then level;

D. an immediate increase of three percent and then level;

E. uniformly decreasing over ten years at a half percent per year and then level;

F. uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

G. an immediate decrease of three percent and then level.

For these and other scenarios which may be used, projected interest rates for a five-year treasury note need not be reduced beyond the point where such five-year treasury note yield would be at 50 percent of its initial level.

The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

Subp. 5. **Documentation.** The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

EFFECTIVE DATE. This chapter is effective five working days after notice of adoption is published in the *State Register* and applies to annual statements required to be filed in 1993 and subsequent years.

Department of Education

Proposed Permanent Rules Relating to Special Education; Revision of Certain Criteria

Notice of Intent to Adopt Rules Without a Public Hearing

NOTICE IS HEREBY GIVEN that the State Board of Education intends to adopt the above-entitled rules without a public hearing following the procedures set forth in the Administrative Procedure Act for adopting rules without a public hearing in *Minnesota Statutes*, section 14.22 to14.28. *Minnesota Statutes*, section 120.17, Subd. 3, charges the Board with the responsibility to promulgate rules that will provide standards and procedures appropriate for the implementation of special education services for students with disabilities by all school districts. This notice for rule making is not to initiate new rules but rather, provide technical amendments and clarifications to existing special education rules.

All persons have 30 days in which to submit comment in support of or in opposition to the proposed rules or any part or subpart of the rules. Comment is encouraged. Each comment should identify the portion of the proposed rules addressed, the reason for the comment, and any change proposed.

KEY: PROPOSED RULES SECTION — Underlining indicates additions to existing rule language. ~~Strike outs~~ indicate deletions from existing rule language. If a proposed rule is totally new, it is designated "all new material." **ADOPTED RULES SECTION** — Underlining indicates additions to proposed rule language. ~~Strike outs~~ indicate deletions from proposed rule language.

In the Matter of the Proposed Adoption of the Rules Relating to Acturial Opinion and Memorandum

AFFIDAVIT OF MAILING THE NOTICE OF INTENT TO ADOPT A RULE WITHOUT A PUBLIC HEARING AND CERTIFICATE OF MAILING LIST

STATE OF MINNESOTA }
} **SS.**
COUNTY OF RAMSEY }

Janie O'Halloran Cotter, being sworn says:

I hereby certify that the list of persons and associations who have requested, pursuant to Minnesota Statutes section 14.14, subdivision 1a and 14.22 or 14.30, that their names be placed on the Minnesota Department of Commerce rulemaking mailing list is accurate, complete, and current as of this 22nd day of October, 1992.

That on the 22nd day of October, 1992, at the City of St. Paul, County of Ramsey, State of Minnesota, I mailed the attached Notices of Intent to Adopt A Rule Without a Public Hearing by depositing in the State of Minnesota Mail for United States mailing, a copy of thereof, to all persons and associations on the aforementioned mailing list.

Subscribed and sworn to Sandi Smith,
this 22nd day of October, 1992.

Sandra Lee Smith
Notary

SANDRA LEE SMITH
NOTARY PUBLIC—MINNESOTA
HENNEPIN COUNTY
My Comm. Expires Apr. 20, 1998

Janie O'Halloran Cotter
Janie O'Halloran Cotter
Secretary to the Commissioner

MaryAnne Hruby
LCCRAR, Room 55 SOB
St. Paul, MN 55155

John G. Horner
Minnesota Multi Housing.
4250 Park Glen Road
Minneapolis, MN 55416

John S. Jackson
Minnesota Bankers Assoc.
700 Peavey Building
Minneapolis, MN 55402

John R. Houston
Lindquist & Vennum
4200 IDS Center
Minneapolis, MN 55402-2205

Kathryn Macquire
Securities & Exchange Commission
Stop 5-1, 450 5th St. NW
Washington, DC 2-549

Glenn Joppa
Union Fidelity Life Ins.
Union Fidelity Office Park
Trevose, Pennsylvania 19049

David M. Leifer
American Council of Life Ins.
1001 Pennsylvania Ave. NW
Washington, DC 20004-2599

Dianne Zyskowksi
CUNA Mutual Insurance
P.O. Box 33430
Detroit, Michigan 48232

J. Barry Gertz
Paris Investment Securities
701 East Bay Str. BTC Box 1112
Charleston, SC 29404

Marvin E. McDougal
Allied Dealer Insurance Services
1550 W. Fremont, P.O. Box 201002
Stockton, CA 95201-9002

Claire Zajac
Group Health Inc.
2829 University Ave SE
Mpls., MN 55414-3295

Maralee German
Milico -PFS, Agent Education
3120 Breckenridge Blvd.
Duluth, GA 30199-0001

Frederick McGarvey
American Insurance Assn.
5750 Old Orchard Road #340
Skokie, IL 60077

John F. Keegan, Director
Massachusetts Indemnity Life
3120 Breckinridge Blvd.
Duluth, GA 30199-0001

Pat Wilson
American Insurance Assoc.
5750 Old Orchard Road #340
Skokie, IL 60077

Deborah Hunter
Ohio State Life Insurance
2500 Farmers Drive
Columbus, Ohio 43235

Kathleen M. Kellerman
Mairs and Power, Inc.
W-2062 First National Bank Bldg.
St. Paul, MN 55101

Jerrold T. Miller
J.T. Miller Company
1000 Currie Avenue
Minneapolis, MN 55403

Ms. Monica Kile
Cal-Surance Associates
P.O. Box 7084
Orange, CA 92613-7048

Margaret Williford
CCC Information Services,Inc.
640 North LaSalle Street
Chicago, IL 60610-3731

John Knapp, Esq
Winthrop & Weinstine
3200 MN World Trade Center
St. Paul, MN 55101

Mr. Thomas D. Feinberg
Leonard Street & Deinard #2300
150 So. Fifth Street
Minneapolis, MN 55402

Robert T. Montague, Jr.
Robins, Kaplan, Miller & Ciresi
2800 LaSalle Plaza, 800 LaSalle Str.
Minneapolis, MN 55402-2015

Brian J. Kraemer
Bankers Systems, Inc.
Box 1457
St. Cloud, MN 56301-1457

John P. Flaten
Rider, Bennett, Egan & Arundel
333 S 7th Street #2000
Minneapolis, MN 55402-2431

Anthony R. Moschetta
Associated Aviation Underwriters
51 John F. Kennedy Parkway
Short Hills, New Jersey 07078

Susan Ladwig
Susan J. Ladwig & Assoc.
165 Western Ave N. Apt. 403
St. Paul, MN 55102-403

Angela Fow
ECRI
5200 Butler Pike
Plymouth Meeting, PA 19462

Wendy May
Dean Witter Reynolds Inc.
130 Liberty Street
New York, NY 10006

Peggy Gallagher
Webster & Sheffield
237 Park Avenue
New York, NY 10017

Conrad M. Fredin
520 First Bank Place
Duluth, MN 55802-2056
Morristown, NJ 07960

Lois A. Huot, Esq.
Orion Group - Law Division
9 Farm Springs Drive
A
Farmington, CT 06032

Cezar M. Froelich
Shefsy, Saitlin & Froelich
444 N. Michigan Ave. Suite 2300

Chicago, IL 60611

Bill Oemichaen
Robins, Kaplan, Miller & Ciresi
1800 International Ctr., 900 2nd

Minneapolis, MN 55402-3394

Tom Grundhoefer
League of Minnesota Cities
183 University Avenue E
St. Paul, MN 55101

MN Retail Merchants Assoc.
Mears Park Place
405 Sibley Street Suite 150
St. Paul, MN 55101

Compliance Department
Jackson National Life
5901 Executive Drive P.O. Box 24068
Lansing, Michigan 48909

Deno Sterzinger
Minnesota League of Credit Unions
2788 East 82nd Street
Bloomington, MN 55425

MN School of Real Estate
7148 Shady Oak Road
Eden Prairie, MN 55344

Nick Pearson
Carter, Ledyard & Milburn
2 Wall Street
New York, NY 10005

C.F. Happach
State Capitol Federal Credit Un.
2015 No. Rice Street
Roseville, MN 55113

Nils Publishing Company
21625 Prairie Street
Chatsworth, CA 91311

James A. Mulder
Association of Minnesota counties
125 Charles Avenue
St. Paul, MN 55103-2108

Peter Thrane
St. Paul Companies, Inc.
385 Washington Street
St. Paul, MN 55102

Pennsylvania life Insurance
1001 Wade Ave., P.O. Box 10234
Raleigh, N.C. 27605

Stewart Gregg
State Bond & Mortgage Co.
8400 Normandale Lake Blvd. #1650
Bloomington, MN 555437-3807

Kristine Hemlock
Shefsky & Froelich,. Ltd.
444 North Michigan Avenue
Chicago, IL 60611

Phillips Legislative Service, Inc.
459 Rice Street, 3rd Floor
St. Paul, MN 55103-2181

Lee T. Peterson
Attorney At Law
665 N. Snelling Avenue
St. Paul, MN 55104-1893

Linda Sutton
CUNA Mutual Insurance Group
P.O. Box 33430
Detroit, Michigan 48232-5430

Jay Y. Benanav, - W.C.R.A.
900 Minnesota Mutual Life Center
400 North Robert Street
St. Paul, MN 55101-2092

Bruce Poulsen
Prudential Insurance Co of America
P.O. Box 1143
Minneapolis, MN 55440

Karen Langland Himle
St. Paul Fire & Marine Ins.
385 Washington Street
St. Paul, MN 55102

Robert R. Abrohams Agency, Inc.
3817 Kipling Avenue So.
Minneapolis, MN 55416-4945

Allan Pratt
Continental Western Life
P.O. Box 65770
West Des Moines, Iowa 50265-0770

Michael J. Ahern
Moss & Barnett
4800 Norwest Center, 90 So. Seventh
Minneapolis, MN 55402-4119

Gerald Quinn
Securities Industry Assoc.
120 Broadway
New York, NY 10271

Stephanie Miller
Metropolitan Prop. & Casualty
700 Quaker Lane
Warwick, RI 02887

John Apitz
Messerly & Kraemer
3800 W. 80th St. Suite 1500
Minneapolis, MN 55431

Greg Bergstrom
422 State Office Building
St. Paul, MN 555155

Jeffrey A. Redmon
Briggs & Morgan
2200 First National Bank Bldg.
St. Paul, MN 55101

Regulation Analyst
Alliance of America Insurers
1501 Woodfield Rd. Suite 400 W.
Schaumberg, IL 60174-4980

Richard Bouhan - NAPSLO
5746 N. Broadway
P.O. Box 28660
Kansas City, MO 64118

Bruce Rashke
Robins, Rashke & Weber
6550 York Avenue So. #603
Minneapolis, MN 55435

American Insurance Assoc.
300 S. Riverside Plaza, Suite 2060S
Chicago, IL 60606

Bernard Rosenberg
Robins, Kaplan, Miller & Ciresi
2800 LaSalle Plz, 800 LaSalle Ave.
Minneapolis, MN 55402

Courey, Schwinn & Kodadek, P.A.
400 Marquette Avenue, Suite 300
Minneapolis, MN 55401

Mark J. Brunner
Minnesota Mfg. Housing Assoc.
555 Park Street, Suite 400
St. Paul, MN 55103

Kay Tichonichik
Employers Health Insurance Co.
Agnts.
1100 Employers Bldg.
Green Bay, WI 54344

Darrell Bunge
Minnesota retirement Council

350 St. Peter, Suite 1025
St. Paul, MN 55102

Tammy Rudd, Director
Nat'l. Assoc. of Prof. Insurance

400 No. Washington Street
Alexandria, VA 22314

Executive Fund Life Insurance Co.
1001 Wade Avenue
P.O. Box 10234
Raleigh, NC 27605

Robert Cameron
Carter, Ledyard & Milburn
2 Wall Street
New York, NY 10005

Sam Ruhle
Office of Administrative Hearings
100 Washington Square #1700
Minneapolis, MN 55401-2138

C. Warren Coulter, Asst. Dir.
Cooper Communities
1801 Forest Hills Blvd.
Bella Vista, AR 72714-2399

Elizabeth Scandura
Dean Witter Reynolds
130 Liberty Street 29th Floor
New York, NY 10006

MCCL
4249 Nicollet Avenue
Minneapolis, MN 55409

Dennis M. Coyne
Hart, Bruner & O'Brien
90 S. 7th Street, Suite 3300
Minneapolis, MN 55402

Jerome Scheibl
Wausau Insurance Group
P.O. Box 8017
Wausau, WI 54402-8017

Minnesota Insurance Guaranty Assn.
4640 West 77th St. Suite 342
Edina, MN 55435

Jean Dawson
Minn. Government Report
B-12 Press Room, State Capitol
St. Paul, MN 55155

James Schamberger
Reinsurance Association of America
1819 L St. NW 7th Floor
Washington, DC 20036

MN Trucking Association
1821 University Avenue Suite 134N
St. Paul, MN 55104

Gerald G. Dederick
Dederick & Himlie, PA
5200 Wilson Road, Suite 308
Edina, MN 55424-1332

Minn. Petroleum Council
350 St. Peter Str. Suite 1025
St. Paul, MN 55102

Robin Sharpe Landy
Hauer, Lewis & Fargione, P.A.
1660 South Highway 100, Suite 230
Minneapolis, MN 55416-1549

Toni Jo Smith
American Insurance Assoc.
1130 Connecticut Ave. Suite 1000
Washington, DC 20036

Joan M. Archer
Builders Assn. of Minnesota
2469 University Avenue
St. Paul, MN 5114

Phillip D. Lehmkuhl
Squire, Sanders & Dempsey
41 South High Street
Columbus, OH 43215

Harold Soderberg
Hessian, McKasy & Soderberg
4700 IDS Center
Minneapolis, MN 55402

Dominic Sposeto
Dominic Sposeto and Assoc.
2824 Irving Avenue S
Minneapolis, MN 55408

Roger E. Steinbach
Insurance Services Office
1919 S. Highland Ave Suite 325A
Lombard, IL 60148

Mary Stanton
State University System
555 Park St. Suite 230
St. Paul, MN 55103

John Stone
Moss & Barnett
4800 Norwest Center 90 S. 7th
Minneapolis, MN 55402-4119

Greg Wilmes
5080 Norwest Center
90 South 7th Street
Minneapolis, MN 55402

Tax Specialist, Controllers
Continental American Life Ins.
P.O. Box 15750
Wilmington, Delaware 19850

Kendra Swe
American Insurance Assoc.
1130 Connecticut Ave. NW #1000
Washington, DC 20036

Cindy Wisniak
Auto Club of Minneapolis
5400 W 39th Street
Minneapolis, MN 55416

Gary K. Thaden
MN Mechanical Contractors
766 Transfer Road
One Beacon Street B17-12
St. Paul, MN 55114

Peter Nickitas
1000 Torrey Building
314 West Superior Street
Duluth, MN 55802-1805

Patricia McNeil
Commercial Union Ins.

Boston Massachusetts 02108

R.G. Lanham, Dir of Research
Carleton Financial Computations
P.O. Box 570
South Bend, IN 46624-0570

Maynard Rasmussen
P.O. Box 50066
Loring Station
Minneapolis, MN 55403

Matt Baudler, Sr. Contract Analyst
Executive Life Insurance
Compliance Dept. P.O. Box 6090
Inglewood, CA 90312-6090

Joseph Pulvirenti
State Relations & Compl. Dept.
P.O. Box 1035
New York, NY 10270

John Deer Insurance Company
Government & Instr. Relations
P.O. Box 2051
Milwaukee, WI 53201-2051

Margaret Jacobs
IDS Financial Serv. Unit 53
IDS Tower
Minneapolis, MN 55474

Ray Schipani
4517 Wooddale Avenue
Edina, MN 55424

American Bankers Insurance
Government Affairs Dept.
11222 Quail Roost Drive
Miami, Florida 33157

Jean M. Scott, Director
Thomson Professional Publ.
910 Sylvan Avenue
Englewood Cliffs, NJ 07632

Wilson, Elser, Moskowitz, Edelman
Attn: Linda Eskay
150 East 42nd Street
New York, NY 10017-5639

Robert E. Miller
National Fraternal Congress
1300 Iroquois Drive P.O. Box 3087
Naperville, IL 60566-7087

Jeff Allers
353 Brutus Drive
Lakeville, MN 55044

Dale Stoebe
United Mortgage Corporation
8300 Norman Cntr. #1000
Bloomington, MN 55437-1091

Mark Burdett
Capitol American
1300 East Ninth Street
Cleveland, Ohio 44144-1565

Skip Herbert
Law Department
First Star
777 E. Wisconsin Avenue
Milwaukee, WI 53206

Claire Zajac
Group Health
2829 University Ave. SE
Minneapolis, MN 55414-3295

Department of Commerce

In the Matter of the Proposed Adoption of the Rules Relating to Actuarial Opinion and Memorandum

NOTICE OF INTENT TO ADOPT RULES WITHOUT A PUBLIC HEARING

Notice is hereby given that the Department of Commerce intends to adopt the above-entitled rules without a public hearing following the procedures set forth in the Administrative Procedure Act for adopting rules without a public hearing in Minnesota Statutes, Sections 14.22 to 14.28. The statutory authority to adopt the rules is Minnesota Statute Sections 45.023, and 61A.25 subd. 2a.

All persons have 30 days in which to submit comment in support of or in opposition to the proposed rules or any part or subpart of the rules. Comment is encouraged. Each comment should identify the portion of the proposed rules addressed, the reason for the comment, and any change proposed.

Any person may make a written request for a public hearing on the rules within the 30-day comment period. If 25 or more persons submit a written request for a public hearing within the 30-day comment period, a public hearing will be held unless a sufficient number withdraw their request in writing. Any person requesting a public hearing should state his or her name and address, and is encouraged to identify the portion of the proposed rules addressed, the reason for the request, and any change proposed. If a public hearing is required, the department will proceed pursuant to Minnesota Statutes Section 14.131 to 14.20.

Comments or written requests for a public hearing must be submitted on or before November 25, 1992 to:

Donna M. Watz
Staff Attorney
Minnesota Department of Commerce
133 East Seventh Street
St. Paul, Minnesota 55101
(612) 297-1118

The proposed rules may be modified if the modifications are supported by data and views submitted to the agency and do not result in a substantial change in the proposed rules as noticed.

A copy of the proposed rules is attached to this notice.

A Statement of Need and Reasonableness that describes the need for and reasonableness of each provision of the proposed rules and identifies the data and information relied upon to support the proposed rules has been prepared and is available upon request from Donna M. Watz, Staff Attorney, at the above referenced address.

If no hearing is required, upon adoption of the rules, the rules and the required supporting documents will be submitted to the Attorney General for review as to legality and form to the extent the form related to legality. Any person may request notification of the date of submission to the Attorney General. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the adopted rules, must submit the written request to Donna M. Watz, Staff Attorney at the above-reference address.

10/12/92

Date:

Bert J. McKasy
Commissioner of Commerce

Department of Commerce

Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum

Rules as Proposed (all new material)

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

2711.0020 PURPOSE.

The purpose of this chapter is to prescribe:

A. guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, and for memoranda in support of these opinions;

B. guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from Minnesota Statutes, section 61A.25, subdivision 2b; and

C. rules applicable to the appointment of an appointed actuary.

2711.0030 APPLICATION AND SCOPE.

Subpart 1. **Generally.** This chapter applies to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state. This chapter applies to all annual statements filed with the office of the commissioner after the effective date of this chapter. Except with respect to companies which are exempted pursuant to part 2711.0060, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with part 2711.0080, and a supporting memorandum in accordance with part 2711.0090, shall be required each year. A company so exempted must file a statement of actuarial opinion pursuant to part 2711.0070.

Approved by Revisor

company, fraternal benefit society, or reinsurer subject to this chapter.

Subp. 8. **NAIC.** "NAIC" means the National Association of Insurance Commissioners.

Subp. 9. **Noninvestment grade bonds.** "Noninvestment grade bonds" are those designated as class 3, 4, 5, or 6 by the NAIC Securities Valuation Office.

Subp. 10. **Qualified actuary.** "Qualified actuary" means an individual who meets the requirements in part 2711.0050, subpart 2.

2711.0050 GENERAL REQUIREMENTS.

Subpart 1. **Submission of statement of actuarial opinion.**

A. There is to be included on or attached to page 1 of the annual statement for each year the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with part 2711.0080. A company exempted pursuant to part 2711.0060 from submitting a statement of actuarial opinion in accordance with part 2711.0080 shall include on or attach to page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with part 2711.0070.

B. If in the previous year a company provided a statement of actuarial opinion in accordance with part 2711.0070, and in the current year fails the exemption criteria of part 2711.0060, subpart 3, item A, B, or E, to again provide an actuarial opinion in accordance with part 2711.0070, the statement of actuarial opinion in accordance with part 2711.0080 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with part 2711.0070 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with part 2711.0080.

Approved
by Revisor _____

American Academy of Actuaries; and

E. has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under item D.

Subp. 3. **Appointed actuary.** An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements in subpart 2. Once the notice is furnished, no further notice is required with respect to this person, if the company gives the commissioner timely written notice if the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements in subpart 2. If a person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice must so state and give the reasons for replacement.

Subp. 4. **Standards for asset adequacy analysis.** The asset analysis required by this chapter must:

A. conform to the standards of practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under this chapter, which standards are to form the basis of the statement of actuarial opinion in accordance with part 2711.0080; and

B. be based on methods of analysis considered appropriate for these purposes by the Actuarial Standards Board.

Subp. 5. **Liabilities to be covered.**

A. Under authority of Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the statement of actuarial opinion applies to all in-force business on the statement date regardless of when or where issued, for example, reserves of exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part

Approved by Revisor _____

admitted assets exceed $20,000,000 but do not exceed $100,000,000.

C. Category C consists of those companies whose admitted assets exceed $100,000,000 but do not exceed $500,000,000.

D. Category D consists of those companies whose admitted assets exceed $500,000,000.

Subp. 3. **Exemption eligibility tests.**

A. A category A company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which these criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.10.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.30.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

B. A category B company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption

Approved by Revisor _____

criteria in subitems (1) to (4) shall not be required, unless required in accordance with item F, to submit a statement of actuarial opinion in accordance with part 2711.0080 more frequently than every third year. A category C company which fails to meet all of the criteria in subitems (1) to (4) for any year shall submit a statement of actuarial opinion in accordance with part 2711.0080 for that year. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.05.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.50.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of the capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

F. A company which is not required by this part to submit a statement of actuarial opinion in accordance with part 2711.0080 for any year shall submit a statement of actuarial opinion in accordance with part 2711.0070 for that year unless as provided for by part 2711.0030, subpart 2, the commissioner requires a statement of actuarial opinion in accordance with part 2711.0080.

Subp. 4. **Large companies.** A category D company shall

Approved by Revisor _____

rendering the opinion and am familiar with the valuation requirements applicable to life and health companies."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain a statement such as:

"I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The regulatory authority paragraph should include a statement such as the following: "This company is exempt pursuant to Minnesota Rules, part 2711.0060, of the Minnesota Department of Commerce from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with Minnesota Rules, part 2711.0070."

C. The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19..."

The paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

(1) aggregate reserve and deposit funds for policies and contracts included in exhibit 8;

(2) aggregate reserve and deposit funds for policies and contracts included in exhibit 9;

(3) deposit funds, premiums, dividend and coupon

Approved by Revisor _____

F. The opinion paragraph should include the following:

"In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below; and

(5) include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

G. The concluding paragraph should document the eligibility for the company to provide an opinion as provided by this part. It shall include the following:

"This opinion is provided in accordance with Minnesota Rules, part 2711.0070. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them.

Eligibility for Minnesota Rules, part 2711.0070, is confirmed as follows:

Approved by Revisor _____

be described in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in item F, paragraph (d), to consistency should read as follows:

"...with the exception of the change described on page [...] of the annual statement (or in the preceding paragraph)."

The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

I. If the appointed actuary is unable to form an opinion, the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

J. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion the statement of a company officer or accounting firm who prepared underlying data similar to the following:

"I, [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

_____

Approved by Revisor _____

(3) must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement reserves for asset adequacy analysis;

(4) must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;

(5) must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or

(6) chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

Subp. 2. **Recommended language.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this part. The language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses the actuary's professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should generally indicate the appointed actuary's relationship to the company and the actuary's qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

Approved by Revisor _____

F Disability - Disabled				
G Miscellaneous Total (Exhibit 8 Item 1, Page 3)				
Exhibit 9				
A Active Life Reserve				
B Claim Reserve Total (Exhibit 9 Item 2, Page 3)				
Exhibit 10				
1 Premiums and Other Deposit Funds				
1.1 Policyholder Premiums (Page 3, Line 10.1)				
1.2 Guaranteed Interest Contracts (Page 3, Line 10.2)				
1.3 Other Contract Deposit Funds (Page 3, Line 10.3)				
2 Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)				
3 Dividend and Coupon Accumulations (Page 3, Line 5)				
Total Exhibit 10				
Exhibit 11 Part 1				
1 Life (Page 3, Line 4.1)				
2 Health (Page 3, Line 4.2)				
Total Exhibit 11, Part 1				
Separate Accounts (Page 3, Line 27)				
TOTAL RESERVES				

IMR (Page ___ Line ___) _____

AVR (Page ___ Line ___) _____(c)

Notes:

(a) The additional actuarial reserves are the reserves established under part 2711.0050, subpart 5, item B or C.

Approved by Revisor _____

records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

Such a section must be accompanied by a statement by each person relied upon of the form prescribed in subpart 5.

F. The opinion paragraph should include the following: "In my opinion the reserves and related actuarial values concerning the statement items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and

(5) include provision for all actuarial reserves and related statement items which ought to be established.

Approved by Revisor _____

_____
Signature of Appointed Actuary

_____
Address of Appointed Actuary

_____
Telephone Number of Appointed Actuary"

Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this part.

Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion, then the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

Subp. 5. **Reliance on data furnished by other persons.** If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset-oriented information, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared the underlying data similar to the following:

"I, [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____
Signature of the Officer of the Company or Accounting Firm

_____
Address of the Officer of the Company

Approved by Revisor _____

with respect to the areas covered in the memoranda, and so state in their memoranda.

C. If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this chapter, the commissioner may designate a qualified actuary to review the opinion and prepare a supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but the review shall be directed and controlled by the commissioner.

D. The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner. Any information provided by the company to the reviewing actuary and included in the work papers is considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to Minnesota Statutes, section 61A.25, subdivision 2a, clause (j). The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this chapter for any one of the current year or the preceding three years.

Subp. 2. **Details of the memorandum section documenting asset adequacy analysis.** When an actuarial opinion under part 2711.0080 is provided, the memorandum must demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in part 2711.0050, subpart 4, and any additional standards under this chapter. It must specify:

A. for reserves:

(1) product descriptions including market description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

Approved by Revisor _____

A. Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

B. Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(1) are developed using consistent economic scenarios; or

(2) are subject to mutually independent risks, for example, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

In the event of any aggregation, the actuary must disclose in the actuary's opinion that the reserves were aggregated on the basis of the method in item A or B, whichever is applicable, and describe the aggregation in the supporting memorandum.

Subp. 2. **Selection of assets for analysis.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves

Approved
by Revisor _____

percent per year and then level;

F. uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

G. an immediate decrease of three percent and then level.

For these and other scenarios which may be used, projected interest rates for a five-year treasury note need not be reduced beyond the point where such five-year treasury note yield would be at 50 percent of its initial level.

The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

Subp. 5. **Documentation.** The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

EFFECTIVE DATE. This chapter is effective five working days after notice of adoption is published in the State Register and applies to annual statements required to be filed in 1993 and subsequent years.

Approved
by Revisor _____

Department of Commerce

Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum

Rules as Proposed (all new material)

REGULATION OF ACTUARIAL OPINION AND MEMORANDUM

2711.0020 PURPOSE.

The purpose of this chapter is to prescribe:

A. guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, and for memoranda in support of these opinions;

B. guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from Minnesota Statutes, section 61A.25, subdivision 2b; and

C. rules applicable to the appointment of an appointed actuary.

2711.0030 APPLICATION AND SCOPE.

Subpart 1. **Generally.** This chapter applies to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state. This chapter applies to all annual statements filed with the office of the commissioner after the effective date of this chapter. Except with respect to companies which are exempted pursuant to part 2711.0060, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with part 2711.0080, and a supporting memorandum in accordance with part 2711.0090, shall be required each year. A company so exempted must file a statement of actuarial opinion pursuant to part 2711.0070.

Approved by Revisor PMM/cmm

Subp. 2. **Opinions from exempt companies.** Notwithstanding 1, the commissioner shall require a company otherwise exempt pursuant to this chapter to submit a statement of actuarial opinion and to prepare a supporting memorandum in accordance with parts 2711.0080 and 2711.0090 if, after a financial analysis of the company the commissioner determines whether the insurer's asset portfolio when viewed in light of current economic conditions is not of sufficient value, liquidity, or diversity to assure the company's ability to meet its outstanding obligations as they mature, an asset adequacy analysis is necessary with respect to the company.

2711.0040 DEFINITIONS.

Subpart 1. **Scope.** For the purposes of this chapter, the terms in this part have the meanings given them.

Subp. 2. **Actuarial Standards Board.** "Actuarial Standards Board" is the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.

Subp. 3. **Annual statement.** "Annual statement" means that statement required by Minnesota Statutes, section 60A.13, to be filed by the company with the office of the commissioner annually.

Subp. 4. **Appointed actuary.** "Appointed actuary" means an individual who is appointed or retained in accordance with part 2711.0050, subpart 3, to provide the actuarial opinion and supporting memorandum as required by Minnesota Statutes, section 61A.25, subdivisions 2a and 2b.

Subp. 5. **Asset adequacy analysis.** "Asset adequacy analysis" means an analysis that meets the standards and other requirements in part 2711.0050, subpart 4. It may take many forms, including, but not limited to, cash flow testing, sensitivity testing, or applications of risk theory.

Subp. 6. **Commissioner.** "Commissioner" means the commissioner of commerce.

Subp. 7. **Company.** "Company" means a life insurance

Approved
by Revisor _____

company, fraternal benefit society, or reinsurer subject to this chapter.

Subp. 8. **NAIC.** "NAIC" means the National Association of Insurance Commissioners.

Subp. 9. **Noninvestment grade bonds.** "Noninvestment grade bonds" are those designated as class 3, 4, 5, or 6 by the NAIC Securities Valuation Office.

Subp. 10. **Qualified actuary.** "Qualified actuary" means an individual who meets the requirements in part 2711.0050, subpart 2.

2711.0050 GENERAL REQUIREMENTS.

Subpart 1. **Submission of statement of actuarial opinion.**

A. There is to be included on or attached to page 1 of the annual statement for each year the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with part 2711.0080. A company exempted pursuant to part 2711.0060 from submitting a statement of actuarial opinion in accordance with part 2711.0080 shall include on or attach to page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with part 2711.0070.

B. If in the previous year a company provided a statement of actuarial opinion in accordance with part 2711.0070, and in the current year fails the exemption criteria of part 2711.0060, subpart 3, item A, B, or E, to again provide an actuarial opinion in accordance with part 2711.0070, the statement of actuarial opinion in accordance with part 2711.0080 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with part 2711.0070 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with part 2711.0080.

Approved
by Revisor _____

C. In the case of a statement of actuarial opinion required to be submitted by a foreign or alien company, the commissioner may accept the statement of actuarial opinion filed by the company with the insurance supervisory regulator of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

Subp. 2. **Qualified actuary.** A "qualified actuary" is an individual who:

A. is a member in good standing of the American Academy of Actuaries;

B. is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing these statements;

C. is familiar with the valuation requirements applicable to life and health insurance companies;

D. has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:

(1) violated any provision of, or any obligation imposed by, the state insurance law or other law in the course of the actuary's dealings as a qualified actuary;

(2) been found guilty of fraudulent or dishonest practices;

(3) demonstrated incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

(4) submitted to the commissioner during the past five years, pursuant to this chapter, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this chapter including standards set by the Actuarial Standards Board; or

(5) resigned or been removed as an actuary within the past five years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards of the

Approved
by Revisor _____

American Academy of Actuaries; and

E. has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under item D.

Subp. 3. **Appointed actuary.** An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in the notice that the person meets the requirements in subpart 2. Once the notice is furnished, no further notice is required with respect to this person, if the company gives the commissioner timely written notice if the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements in subpart 2. If a person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice must so state and give the reasons for replacement.

Subp. 4. **Standards for asset adequacy analysis.** The asset analysis required by this chapter must:

A. conform to the standards of practice as promulgated from time to time by the Actuarial Standards Board and to any additional standards under this chapter, which standards are to form the basis of the statement of actuarial opinion in accordance with part 2711.0080; and

B. be based on methods of analysis considered appropriate for these purposes by the Actuarial Standards Board.

Subp. 5. **Liabilities to be covered.**

A. Under authority of Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the statement of actuarial opinion applies to all in-force business on the statement date regardless of when or where issued, for example, reserves of exhibits 8, 9, and 10, and claim liabilities in exhibit 11, part

Approved
by Revisor _____

1, and equivalent items in the separate account statement or statements.

B. If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods in Minnesota Statutes, section 61A.25, subdivisions 4, 4a, 7, 8, and 9, the company shall establish this additional reserve.

C. For years ending before December 31, 1994, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

(1) December 31, 1992, the additional reserve divided by three; and

(2) December 31, 1993, two times the additional reserve divided by three.

D. Additional reserves established under item B or C and considered not necessary in subsequent years may be released. Amounts released must be disclosed in the actuarial opinion for the applicable year. The release of these reserves is not considered an adoption of a lower standard of valuation.

2711.0060 REQUIRED OPINIONS.

Subpart 1. **General.** In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, every company doing business in this state shall annually submit the opinion of an appointed actuary as provided for by this chapter. The type of opinion submitted is determined by this part and must be in accordance with this chapter.

Subp. 2. **Company categories.** For purposes of this chapter, companies shall be classified according to items A to D based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable.

A. Category A consists of those companies whose admitted assets do not exceed $20,000,000.

B. Category B consists of those companies whose

Approved
by Revisor _____

admitted assets exceed $20,000,000 but do not exceed $100,000,000.

C. Category C consists of those companies whose admitted assets exceed $100,000,000 but do not exceed $500,000,000.

D. Category D consists of those companies whose admitted assets exceed $500,000,000.

Subp. 3. **Exemption eligibility tests.**

A. A category A company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which these criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.10.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.30.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

B. A category B company that for any year meets all of the criteria in subitems (1) to (4) is eligible for exemption

Approved by Revisor _____

from submission of a statement of actuarial opinion in accordance with part 2711.0080 for the year in which the criteria are met. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.07.

(2) The ratio of the sum of reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.40.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

C. A category A or B company that meets all of the criteria in item A or B, whichever is applicable, is exempted from submission of a statement of actuarial opinion in accordance with part 2711.0080 unless the commissioner specifically indicates to the company that the exemption is not to be taken.

D. A category A or B company that for any year is not exempted under item C shall be required to submit a statement of actuarial opinion in accordance with part 2711.0080 for the year for which it is not exempt.

E. A category C company that, after submitting an opinion in accordance with part 2711.0080, meets all of the

Approved by Revisor _____

criteria in subitems (1) to (4) shall not be required, unless required in accordance with item F, to submit a statement of actuarial opinion in accordance with part 2711.0080 more frequently than every third year. A category C company which fails to meet all of the criteria in subitems (1) to (4) for any year shall submit a statement of actuarial opinion in accordance with part 2711.0080 for that year. The ratios in subitems (1) to (3) must be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

(1) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to 0.05.

(2) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than 0.50.

(3) The ratio of the statement value of the noninvestment grade bonds to the sum of the capital and surplus is less than 0.50.

(4) The examiner team for the NAIC has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC life and health actuarial task force and the NAIC staff and support office.

F. A company which is not required by this part to submit a statement of actuarial opinion in accordance with part 2711.0080 for any year shall submit a statement of actuarial opinion in accordance with part 2711.0070 for that year unless as provided for by part 2711.0030, subpart 2, the commissioner requires a statement of actuarial opinion in accordance with part 2711.0080.

Subp. 4. **Large companies.** A category D company shall

Approved
by Revisor _____

submit a statement of actuarial opinion in accordance with part 2711.0080 for each year.

2711.0070 STATEMENT OF ACTUARIAL OPINION NOT INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion required by this part consists of a paragraph identifying the appointed actuary and the actuary's qualifications; a regulatory authority paragraph stating that the company is exempt pursuant to this chapter from submitting a statement of actuarial opinion based on an asset adequacy analysis and that the opinion, which is not based on an asset adequacy analysis, is rendered in accordance with part 2711.0070; a scope paragraph identifying the subjects on which the opinion is to be expressed and describing the scope of the appointed actuary's work; and an opinion paragraph expressing the appointed actuary's opinion as required by Minnesota Statutes, section 61A.25, subdivision 2a.

Subp. 2. **Recommended language.** The following language provided is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this part. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary must use language which clearly expresses the actuary's professional judgment. However, the opinion must retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should indicate the appointed actuary's relationship to the company. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name of actuary], am [title] of [name of company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for

Approved
by Revisor _____

rendering the opinion and am familiar with the valuation requirements applicable to life and health companies."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain a statement such as:

"I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The regulatory authority paragraph should include a statement such as the following: "This company is exempt pursuant to Minnesota Rules, part 2711.0060, of the Minnesota Department of Commerce from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with Minnesota Rules, part 2711.0070."

C. The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19..."

The paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

(1) aggregate reserve and deposit funds for policies and contracts included in exhibit 8;

(2) aggregate reserve and deposit funds for policies and contracts included in exhibit 9;

(3) deposit funds, premiums, dividend and coupon

Approved by Revisor _____

accumulations, and supplementary contracts not involving life contingencies included in exhibit 10; and

(4) policy and contract claims--liability end of current year included in exhibit 11, part 1.

D. If the appointed actuary has examined the underlying records, the scope paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force prepared by the company or a third party, the scope paragraph should include a sentence such as one of the following:

"I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. (See accompanying affidavit by a company officer.) In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

The statement of the person certifying shall follow the form indicated by item J.

Approved
by Revisor _____

F. The opinion paragraph should include the following:

"In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below; and

(5) include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

G. The concluding paragraph should document the eligibility for the company to provide an opinion as provided by this part. It shall include the following:

"This opinion is provided in accordance with Minnesota Rules, part 2711.0070. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them.

Eligibility for Minnesota Rules, part 2711.0070, is confirmed as follows:

Approved by Revisor _____

(a) The ratio of the sum of capital and surplus to the sum of cash and invested assets is [insert amount], which equals or exceeds the applicable criterion based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(b) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is [insert amount], which is less than the applicable criteria based on the admitted assets of the company (Minnesota Rules, part 2711.0060, subpart 3).

(c) The ratio of the statement value of the noninvestment grade bonds to the sum of capital and surplus is [insert amount], which is less than the applicable criteria of 0.50.

(d) To my knowledge, the NAIC examiner team has not designated the company as a first priority company in any of the two calendar years preceding the calendar for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable; or the company has resolved such first or second priority status to the satisfaction of the commissioner of the state of domicile, and has provided the necessary NAIC notification.

(e) To my knowledge there is not a specific request from any commissioner requiring an asset adequacy analysis opinion.

_____

Signature of Appointed Actuary

_____

Address of Appointed Actuary

_____

Telephone Number of Appointed Actuary"

H. If there has been any change in the actuarial assumptions from those previously employed, that change should

Approved by Revisor _____

be described in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in item F, paragraph (d), to consistency should read as follows:

"...with the exception of the change described on page [...] of the annual statement (or in the preceding paragraph)."

The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

I. If the appointed actuary is unable to form an opinion, the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

J. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion the statement of a company officer or accounting firm who prepared underlying data similar to the following:

"I, [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____

Signature of the Officer of the Company or Accounting Firm

_____

Address of the Officer of the Company or Accounting Firm

_____

Approved by Revisor _____

Telephone Number of the Officer of the Company or Accounting Firm

2711.0080 STATEMENT OF ACTUARIAL OPINION BASED ON AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General description.** The statement of actuarial opinion submitted in accordance with this part shall consist of:

A. a paragraph, as required by subpart 2, item A, identifying the appointed actuary and the actuary's qualifications;

B. a scope paragraph, as required by subpart 2, item B, identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a delineation of the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed;

C. a reliance paragraph, as required by subpart 2, item C, describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures, or assumptions (for example, anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios) supported by a statement of each expert in the form prescribed by subpart 5;

D. an opinion paragraph, as required by subpart 2, item F, expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities; and

E. one or more additional paragraphs as needed in individual company cases if the appointed actuary:

(1) considers it necessary to state a qualification of the actuary's opinion;

(2) must disclose the method of aggregation for reserves of different products or lines of business for asset adequacy analysis;

Approved by Revisor _____

(3) must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement reserves for asset adequacy analysis;

(4) must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion;

(5) must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release; or

(6) chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

Subp. 2. **Recommended language.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this part. The language is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language which clearly expresses the actuary's professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this part.

A. The opening paragraph should generally indicate the appointed actuary's relationship to the company and the actuary's qualifications to sign the opinion. For a company actuary, the opening paragraph of the actuarial opinion should read as follows:

"I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the board of directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

Approved by Revisor _____

For a consulting actuary, the opening paragraph should contain a sentence such as:

"I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the board of directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

B. The scope paragraph should include a statement such as the following:

"I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19... Delineated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

	Reserves and Liabilities				
	Asset Adequacy Tested Amounts				
Statement Item	Formula Reserves (1)	Additional Actuarial Reserves (a) (2)	Analysis Method (b)	Other Amount (3)	Total Amount (1)+(2)+(3) (4)
Exhibit 8					
A Life Insurance					
B Annuities					
C Supplementary Contracts Involving Life Contingencies					
D Accidental Death Benefit					
E Disability - Active					

Approved by Revisor _____

F	Disability - Disabled				
G	Miscellaneous Total (Exhibit 8 Item 1, Page 3)	_____	_____	_____	_____
Exhibit 9					
A	Active Life Reserve				
B	Claim Reserve Total (Exhibit 9 Item 2, Page 3)	_____	_____	_____	_____
Exhibit 10					
1	Premiums and Other Deposit Funds				
1.1	Policyholder Premiums (Page 3, Line 10.1)				
1.2	Guaranteed Interest Contracts (Page 3, Line 10.2)				
1.3	Other Contract Deposit Funds (Page 3, Line 10.3)				
2	Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)				
3	Dividend and Coupon Accumulations (Page 3, Line 5) Total Exhibit 10	_____	_____	_____	_____
Exhibit 11 Part 1					
1	Life (Page 3, Line 4.1)				
2	Health (Page 3, Line 4.2) Total Exhibit 11, Part 1	_____	_____	_____	_____
Separate Accounts (Page 3, Line 27)		_____	_____	_____	_____
	TOTAL RESERVES	_____	_____	_____	_____

IMR (Page ___ Line ___) _____

AVR (Page ___ Line ___) _____(c)

Notes:

(a) The additional actuarial reserves are the reserves established under part 2711.0050, subpart 5, item B or C.

Approved by Revisor _____

(b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in part 2711.0050, subpart 4, by means of symbols which should be defined in footnotes to the table.

(c) Allocated amount."

C. If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as the following:

"I have relied on [name], [title] for [e.g., anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] and, as certified in the attached statement, ..."

or

"I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement."

Such a statement of reliance on other experts should be accompanied by a statement by each of such experts of the form prescribed by subpart 5.

D. If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should also include the following:

"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary."

E. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force and/or asset records prepared by the company or a third party, the reliance paragraph should include a sentence such as:

"I have relied upon listings and summaries [of policies and contracts, of asset records] prepared by [name and title of company officer certifying in-force

Approved by Revisor _____

records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

or

"I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

Such a section must be accompanied by a statement by each person relied upon of the form prescribed in subpart 5.

F. The opinion paragraph should include the following: "In my opinion the reserves and related actuarial values concerning the statement items identified above:

(1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

(3) meet the requirements of the insurance law and regulations of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and

(5) include provision for all actuarial reserves and related statement items which ought to be established.

Approved by Revisor _____

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the principal repayments and investment earnings from such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion."

or

"The following material change or changes which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: [Describe the change or changes.]"

Note: Choose one of the above two paragraphs, whichever is applicable.

"The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow all the assumptions used in the analysis.

Approved by Revisor _____

_____
Signature of Appointed Actuary

_____
Address of Appointed Actuary

_____
Telephone Number of Appointed Actuary"

Subp. 3. **Assumptions for new issues.** The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this part.

Subp. 4. **Adverse opinions.** If the appointed actuary is unable to form an opinion, then the actuary shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then the actuary shall issue an adverse or qualified actuarial opinion explicitly stating the reasons for the opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

Subp. 5. **Reliance on data furnished by other persons.** If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset-oriented information, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared the underlying data similar to the following:

"I, [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19.., and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____
Signature of the Officer of the Company or Accounting Firm

_____
Address of the Officer of the Company

Approved by Revisor _____

or Accounting Firm

_____
Telephone Number of the Officer of the Company or Accounting Firm"

and/or

"I, [name of officer], [title], of [name of company, accounting firm, or security analyst], hereby affirm that the listings, summaries, and analyses relating to data prepared for and submitted to [name of appointed actuary], in support of the asset-oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

_____
Signature of the Officer of the Company, Accounting Firm, or the Security Analyst

_____
Address of the Officer of the Company, Accounting Firm, or the Security Analyst

_____
Telephone Number of the Officer of the Company, Accounting Firm, or the Security Analyst"

2711.0090 DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS.

Subpart 1. **General.**

A. In accordance with Minnesota Statutes, section 61A.25, subdivisions 2a and 2b, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of the actuary's opinion regarding the reserves under a part 2711.0080 opinion. The memorandum shall be made available for examination by the commissioner upon the commissioner's request but shall be returned to the company after the examination and shall not be considered a record of the Department of Commerce or subject to automatic filing with the commissioner.

B. In preparing the memorandum, the appointed actuary may rely on, and include as a part of the actuary's own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of part 2711.0050, subpart 2,

Approved by Revisor _____

with respect to the areas covered in the memoranda, and so state in their memoranda.

C. If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this chapter, the commissioner may designate a qualified actuary to review the opinion and prepare a supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but the review shall be directed and controlled by the commissioner.

D. The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner. Any information provided by the company to the reviewing actuary and included in the work papers is considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to Minnesota Statutes, section 61A.25, subdivision 2a, clause (j). The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this chapter for any one of the current year or the preceding three years.

Subp. 2. **Details of the memorandum section documenting asset adequacy analysis.** When an actuarial opinion under part 2711.0080 is provided, the memorandum must demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in part 2711.0050, subpart 4, and any additional standards under this chapter. It must specify:

A. for reserves:

(1) product descriptions including market description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

Approved by Revisor _____

(2) source of liability in force;

(3) reserve method and basis;

(4) investment reserves; and

(5) reinsurance arrangements;

B. for assets:

(1) portfolio descriptions, including a risk profile disclosing the quality, distribution, and types of assets;

(2) investment and disinvestment assumptions;

(3) source of asset data; and

(4) asset valuation bases;

C. analysis basis:

(1) methodology;

(2) rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed;

(3) rationale for degree of rigor in analyzing different blocks of business;

(4) criteria for determining asset adequacy; and

(5) effect of federal income taxes, reinsurance, and other relevant factors;

D. summary of results; and

E. conclusions.

Subp. 3. **Conformity to standards of practice.** The memorandum must include the following statement:

"Actuarial methods, considerations, and analyses used in the preparation of this memorandum conform to the appropriate standards of practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum."

2711.0100 ADDITIONAL CONSIDERATIONS FOR ANALYSIS.

Subpart 1. **Aggregation.** For the asset adequacy analysis for the statement of actuarial opinion provided in accordance with part 2711.0080, reserves and assets may be aggregated by either of the methods in item A or B.

Approved by Revisor _____

A. Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

B. Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(1) are developed using consistent economic scenarios; or

(2) are subject to mutually independent risks, for example, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

In the event of any aggregation, the actuary must disclose in the actuary's opinion that the reserves were aggregated on the basis of the method in item A or B, whichever is applicable, and describe the aggregation in the supporting memorandum.

Subp. 2. **Selection of assets for analysis.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves

Approved by Revisor _____

shall not exceed the annual statement value of the specified reserves, except as provided in subpart 3. If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

Subp. 3. **Use of assets supporting Interest Maintenance Reserve and Asset Valuation Reserve.** An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum.

Subp. 4. **Required interest scenarios.** For the purpose of performing the asset adequacy analysis required by this chapter, the qualified actuary shall follow standards adopted by the Actuarial Standards Board; nevertheless, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

A. level with no deviation;

B. uniformly increasing over ten years at a half percent per year and then level;

C. uniformly increasing at one percent per year over five years and then uniformly decreasing at one percent per year to the original level at the end of ten years and then level;

D. an immediate increase of three percent and then level;

E. uniformly decreasing over ten years at a half

Approved
by Revisor _____

percent per year and then level;

F. uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

G. an immediate decrease of three percent and then level.

For these and other scenarios which may be used, projected interest rates for a five-year treasury note need not be reduced beyond the point where such five-year treasury note yield would be at 50 percent of its initial level.

The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

Subp. 5. **Documentation.** The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

EFFECTIVE DATE. This chapter is effective five working days after notice of adoption is published in the State Register and applies to annual statements required to be filed in 1993 and subsequent years.

Approved
by Revisor _____

Office of the Revisor of Statutes

Administrative Rules

TITLE: Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum

AGENCY: Department of Commerce

MINNESOTA RULES: Chapter 2711

The attached rules are approved for publication in the State Register

Paul M. Marinac
Deputy Revisor

Stat Authority 45.023
The commissioner of commerce may adopt, amend suspend, or repeal rules

61A.25 Standard Valuation Law
Actuarial opinion of reserves, general

page 18. Proposed Rules Asset Adequacy Tested Amounts - nothing about this in Senate — Does appear in SONAR - p. 20 MK

Did not put end of the comment period in Notice of Intent

OFFICE OF THE COMMISSIONER

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

133 EAST 7th STREET
ST. PAUL, MN 55101
612/296-4026
FAX: 612/296-4328

December 9, 1992

Office of the Attorney General
Public Finance Division
525 Park Place, Suite 500
St. Paul, MN 55155

RE: Proposed Permanent Rules Relating to Actuarial Opinion and Memorandum Holding

Pursuant to Minnesota Rules section 2010.0300, we submit the following documents for your review regarding the above-captioned proposed rules.

1. Copy of the Proposed Rules with the Revisor's Certificate;
2. Notice of Intent to Adopt Rules Without a Public Hearing;
3. Statement of Need and Reasonableness;
4. Affidavit of Mailing Notice of Intent to Adopt Rules Without Public Hearing and Certificate of Mailing List;
5. Copy of Notice of Intent to Adopt Rules Without Public Hearing as published in the State Register;
6. Four copies of the Rules as adopted;
7. Findings of Fact, Conclusions and Order Adopting Rules;
8. Declaration of Attorney General.

As indicated in the Findings of Fact, Conclusions and Order Adopting Rule, please note that we received no requests for notice of submission of the rules to the Attorney General.

Sincerely,

BERT J. McKASY
Commissioner of Commerce

By:

Donna M. Watz

Donna M. Watz
Staff Attorney

DMW:joc
Enclosures