



AMERICAN ACADEMY *of* ACTUARIES

May 18, 2001

Ms. Jane Kipper
Senior Life Insurance Accounting Specialist
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City MO 64108

Re: Attached Forms A and B of Proposed Changes to "Accounting Practices and Procedures Manual"

Dear Ms. Kipper:

This submission is being made by the American Academy of Actuaries' (Academy) Committee on Life Insurance Financial Reporting (COLIFR). I am the chairperson for COLIFR.

After the release of the first edition of the "Accounting Practices and Procedures Manual" (Manual), Mr. R. Thomas Herget (a member of the Academy) of PolySystems, Inc. held a series of focus group meetings regarding actuarial content in the Manual. These meetings resulted in a list of 49 questions being submitted to Brady Kelly, Financial Services Program Manager of the NAIC, on April 7, 2000. Since that time, it was decided that the questions should be submitted to the Academy for a more thorough review, with any resulting response to follow the formal process outlined by the National Association of Insurance Commissioners (NAIC) for proposed changes to the Manual.

The Academy assigned this task to COLIFR. Mr. David Rockwell, a member of COLIFR, assumed responsibility for completing the research prior to the NAIC's summer 2001 meetings. Attached to this letter is the result of COLIFR's efforts. We were able to reduce the original list of questions to 17 issues. These are summarized in the Appendix. There are 16 Form A issues and one Form B issue. Of the 16 Form A issues, 14 are classified as "non-substantive" and two as "substantive", in accordance with the NAIC's requirements.

At the request of Mr. David Christensen, Statutory Accounting Principles Manager of the NAIC, we have also submitted these forms to you electronically. Should you have any questions regarding the content of our submission, please contact Mr. Rockwell. His contact information is included on each form.

Please advise if you would like to have a representative of the Academy familiar with our submission available for questions at the NAIC meeting where this material might be discussed.

Sincerely,

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

Daniel J. Kunesh MAAA
Chairperson, COLIFR

Attachments: Appendix, Forms A and B

cc: David Christensen

**AMERICAN ACADEMY OF ACTUARIES SUBMISSION TO NAIC
PROPOSED FORMS A AND B CHANGES**

	Form Type	S or N¹	Description of Issue
1.	A	N	Members of American Academy of Actuaries
2.	A	N	Annuity Mortality Tables
3.	A	S	Use of additional contract reserves when calculating premium deficiency reserves
4.	A	N	The term "asset liability matching" is not defined in valuation literature
5.	A	N	Definition of charged premium
6.	A	N	Allowable method of valuation for credit insurance
7.	A	S	Rules for categorizing uncollected premium ...
8.	A	N	What is an allowable grouping of policies for premium deficiency reserve testing?
9.	A	N	Use of the phrase liquidation basis
10.	A	N	Long Term care is not referenced in SSAP 51 (Life)
11.	A	N	Reference to Managing General Agents ...
12.	A	N	Redundant paragraphs
13.	A	N	Conflicting references
14.	A	N	What does the term "laws and regulations" encompass?
15.	A	N	Are certain reserves required or suggested?
16.	A	N	Does codification preempt state laws?
17.	B		Margin for adverse deviation in claim reserves

¹ "S" stands for substantive and "N" stands for non-substantive.

**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Members of the American Academy of Actuaries

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix 820 paragraph 1Aa defines a “qualified actuary” as an individual who (among other things) “is a member in good standing of the American Academy of Actuaries”. The American Academy of Actuaries does not use the term “member in good standing” or any other similar term. The only category is member.

*Existing Authoritative Literature: Appendix 820 paragraph 1Aa

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change Appendix 820 paragraph 1Aa to read:

“is a member ~~in good standing~~ of the American Academy of Actuaries;”.

Recommending Party:

American Academy of Actuaries' Committee on Life Insurance Financial Reporting
David Rockwell, Committee Member
303 East Wacker Drive
Chicago, IL 60601-5212
(312) 665-8902
drockwell@kpmg.com

Submitted 5/18/01

* Indicates required information before NAIC staff will accept form as a final document.

**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Annuity Mortality Tables

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix A-821 lists mortality tables used in determining the minimum standard of valuation for annuity and pure endowment contracts. The 1994 Variable Annuity Minimum Guaranteed Death Benefit Table described in Actuarial Guideline XXXIV is used to value death benefits as defined in the guideline. It is not mentioned in the appendix. It's omission may cause confusion over the mortality table to be used under codification.

*Existing Authoritative Literature: Actuarial Guideline XXXIV

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change Appendix A-821 to read:

Purpose

1. The purpose of this Appendix is to recognize the following mortality tables for use in determining the minimum standard of valuation for annuity and pure endowment contracts: the 1983 Table "a", the Annuity 2000 Mortality Table, and the 1994 Group Annuity Reserving (1994 GAR) Table. Also recognized is the 1994 Variable Annuity MGDB Mortality Table for use in discounting projected death benefits required by

Actuarial Guideline XXXIV, Variable Annuity Minimum Guaranteed Death Benefit Reserves.

Definitions

2. As used in this Appendix “1983 Table ‘a’ “ means that mortality table developed by the Society of Actuaries Committee to Recommend a New Mortality Basis for Individual Annuity Valuation and adopted as a recognized mortality table for annuities in June 1982 by the National Association of Insurance Commissioners.
3. As used in this Appendix “1994 GAR Table“ means that mortality table developed by the Society of Actuaries Group Annuity Valuation Table Task Force and shown in the Proceedings of the NAIC.
4. As used in this Appendix “1994 GAR Table“ means that mortality table developed by the Society of Actuaries Committee on Life Insurance Research and shown in the Proceedings of the NAIC.
5. As used in this Appendix “1994 Variable Annuity MGDB Mortality Table” means that mortality table derived from the 1994 Group Annuity Mortality Basic Table and shown in Appendix II of Actuarial Guideline XXXIV, Variable Annuity Minimum Guaranteed Death Benefit Reserves.

Also, add an additional section at the end of Appendix A-821 that reads:

Projected death benefits required by Actuarial Guideline XXXIV, Variable Annuity Minimum Guaranteed Death Benefit Reserves

9. The 1994 Variable Annuity MGDB Mortality Table shall be used for discounting projected death benefits required by Actuarial Guideline XXXIV, Variable Annuity Minimum Guaranteed Death Benefit Reserves.

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Substantive**

Issue: Use of additional contract reserves when calculating premium deficiency reserves

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	<input type="checkbox"/>	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 54 paragraph 18 about [A&H] additional reserves reads, “When the expected claim payments or incurred costs, claim adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period, a premium deficiency reserve shall be recognized...”. Additional contract reserves as found in Exhibit 9, Part A, Line 2 of the annual statement may already exist. These should also be considered when evaluating the need for premium deficiency reserves. The absence of this item might lead a practitioner to inappropriately ignore additional contract reserves when calculating premium deficiency reserves.

Appendix A-010 paragraph 22 also omits additional contract reserves from the items to be considered.

*Existing Authoritative Literature: NAIC Draft Health Reserves Guidance Manual

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change the first sentence of SSAP 54 paragraph 18 to read, “When the expected claims payment or incurred costs, claim adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period, and additional contract reserves, a premium

deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations.”.

Change the second sentence of Appendix A-010 paragraph 22 to read, “Such a gross premium valuation will take into account, for contracts in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as the valuation date of: all expected benefits unpaid, all expected expenses unpaid, ~~and~~ all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect and additional contract reserves held as of the valuation date.”.

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: The term “asset liability matching” is not defined in valuation literature

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 52 paragraph 15b refers to additional reserves required from cash flow testing and/or asset liability matching. Cash flow testing is required under certain circumstances described in Appendix A-822. Additional reserves may be required due to the results of cash flow testing. It is not required that a company’s assets and liabilities be matched. Other than cash flow testing, there is no requirement that asset liability matching studies be performed or additional reserves required.

Using the broader term asset adequacy analysis in place of cash flow testing would encompass situations where additional reserves were deemed necessary through testing other than cash flow testing.

*Existing Authoritative Literature: NAIC Actuarial Opinion and Memorandum Model Regulation

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue: Change SSAP 52 paragraph 15b to read, “b. Additional reserves required based on asset adequacy analysis~~cash flow testing and/or asset liability matching~~.”.

Recommending Party:

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Definition of charged premium

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix A-820 paragraph 17 contains the potentially confusing term “gross premium charged”. The language in the appendix mirrors that used in the Standard Valuation Law (SVL) model regulation. When the SVL was written, the current practice of having two tiers of premiums, guaranteed and current, was not yet prevalent. The term “gross premium charged” is not well defined. This could lead to a misapplication of the requirements.

*Existing Authoritative Literature: NAIC Standard Valuation Law

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change Appendix A-820 paragraph 17 to read,

“If in any contract year the gross premium ~~charged-guaranteed~~ by a life insurance company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the ~~actual-guaranteed~~ gross premium.”

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Allowable method of valuation for credit insurance

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	<input type="checkbox"/>	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 59 paragraph 11 mentions three choices for credit A&H unearned premium reserves; pro rata, rule of 78 or the actuarial method. Later in the paragraph, it is mentioned that the mean of rule of 78 and pro rata (Mean) is often used in practice. Since mean was not listed as one of the three acceptable choices, it is not clear whether or not it is allowable under codification.

*Existing Authoritative Literature: *Credit Life and Disability Insurance*, page 206, a book by Gary Fagg, FSA, MAAA

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG:

Recommended Conclusion or Future Action on Issue:

Change SSAP 59 paragraph 11 to read,

”Policy reserves for credit A&H policies shall be based on a gross unearned premium reserve using either the pro rata, Rule of 78’s, mean of pro rata and Rule of 78’s or actuarial methods. The actuarial reserve is the single premium for the debt’s remaining term and amount. Most states require reporting entities to record a gross unearned premium reserve using the Rule of 78’s method. In practice, a mean gross unearned premium reserve (average of the Rule of 78’s and the pro rata methods) is often recorded. The reporting entity shall select a method that reflects the pattern of insurance protection provided.”

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A - Substantive**

Issue: The rules for categorizing uncollected premium as an admitted or unadmitted asset require some adjustment for logical consistency.

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue: Admitted and non-admitted due premium is a new issue for life insurance. This type of classification has hitherto existed only for A&H due premium. Several issues are present in the definitions currently used in SSAP 51 paragraph 12 for life and SSAP 6 paragraph 6 for A&H.

Issue #1. A single modal premium exactly 90 days overdue would be admitted under the A&H criterion. We do not believe that it was the intent of the drafters of the corresponding criterion for life insurance that a single modal premium exactly 90 days overdue be non-admitted.

Issue #2. The life criterion does not state explicitly the status of a modal due premium which is 90 days or more overdue.

Issue #3. The life criterion does not state that the admissibility of the entire due premium arrearage must be determined from the due date of the earliest premium in arrears as does the A&H criterion.

Issue #4. The A&H criterion allows the portion of the due premium corresponding to any unearned premium liability to be admitted regardless of the admissibility of all of the rest of the premium arrearage. The life criterion does not contain this provision.

Issue #5 is the most complex of the issues relating to the interjection of the concept of admissibility of due premium for life insurance. It is not logical to classify as a non-admitted asset any portion of the due premium which is inherent in the liability which the company is establishing for the contract.

For A&H insurance reserved on a mid-terminal plus unearned gross or net premium basis, the A&H criterion addresses this issue by allowing due premium equal to any unearned premium liability to be admitted.

However, the A&H criterion does not address the proper handling for business reserved on a mean reserve less deferred net premium basis. This basis is sometimes used for individual A&H insurance and is the predominant reserving basis for individual life insurance.

A mean-basis reserve may be viewed as a reserve interpolated between: (1) a starting reserve consisting of the prior policy year's terminal reserve plus the current policy year's net premium and (2) an ending reserve consisting of the current policy year's terminal reserve. Thus, a classical mean reserve using 1/2 as the interpolation factor for both the beginning and ending reserve element in effect contains an implicit unearned premium liability equal to 1/2 the current policy year's net annual premium. Under former statutory practice for life insurance, this mean reserve was reduced by any due and deferred net premium.

It is desirable to have consistent definitions of admittability that are logically consistent with the reserving mechanism.

*Existing Authoritative Literature: The Financial Reporter, Newsletter of the Life Insurance Company Financial Reporting Section of the Society of Actuaries, *To Admit or Not to Admit – Is That the Question?*, by Kenneth W. Faig, Jr., FSA, MAAA

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change SSAP 51 paragraph 12 to read,

“Gross premiums that are due and unpaid as of the reporting date, net of loading, shall be classified as uncollected premiums. Uncollected premium balances which are ~~less than~~ 90 days ~~or less~~ past due meet the definition of an asset, as defined in *SSAP No. 4-Assets and Nonadmitted Assets*, and are admitted assets to the extent they conform to the requirements of this statement. To the extent that there is no related reserve held for unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. The reserve for unearned premium will be determined as follows:

- a. Policies reserved on an unearned premium basis - the lesser of the uncollected premium balance and the unearned premium reserve.
- b. Policies reserved on a mid-terminal reserve basis with an associated unearned premium liability -the lesser of the uncollected premium balance and the unearned premium liability.
- c. Policies reserved on a mean reserve basis with an associated deferred net premium asset - the lesser of the uncollected premium balance and Quantity X as defined below:

Quantity X = minimum [Quantity A; maximum (Quantity B, Quantity C)], where:

Quantity A = current policy or contract year's mean reserve; and

Quantity B = unearned portion of current policy or contract year's net annual premium;
and

Quantity C = unearned portion of current policy or contract year's cost of insurance or claim cost.

The unearned computation involved in the determination of Quantity B and Quantity C shall be consistent with the interpolation method used for the determination of mean reserves.

If any installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted.

Change SSAP 6 paragraph 9a to read,

“To the extent that there is no related reserve held for unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. The reserve for unearned premium will be determined as follows:

- a. Policies reserved on an unearned premium basis - the lesser of the uncollected premium balance and the unearned premium reserve.
- b. Policies reserved on a mid-terminal reserve basis with an associated unearned premium liability -the lesser of the uncollected premium balance and the unearned premium liability.
- c. Policies reserved on a mean reserve basis with an associated deferred net premium asset - the lesser of the uncollected premium balance and Quantity X as defined below:

Quantity X = minimum [Quantity A; maximum (Quantity B, Quantity C)], where:

Quantity A = current policy or contract year's mean reserve; and

Quantity B = unearned portion of current policy or contract year's net annual premium;
and

Quantity C = unearned portion of current policy or contract year's cost of insurance or claim cost.

The unearned computation involved in the determination of Quantity B and Quantity C shall be consistent with the interpolation method used for the determination of mean reserves.

If any installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted.

Recommending Party:

American Academy of Actuaries' Committee on Life Insurance Financial Reporting
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Submitted 5/18/01

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: What is an allowable grouping of policies for premium deficiency reserve testing?

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	<input type="checkbox"/>	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 54 paragraph 18 requires testing for premium deficiency reserves be done for groups of policies consistent with how policies are marketed, serviced and measured. Appendix A-010 paragraph 22 requires grouping for the purposes of reserve adequacy testing to be “any block of contracts, or with respect to an insurer’s health business as a whole.”. The existence of different instructions for policy groupings may lead different practitioners to interpret the requirements differently.

The language in SSAP 54 paragraph 18 is closer to that found in the NAIC Draft Health Reserves Guidance Manual than that found in the appendix.

*Existing Authoritative Literature: NAIC Draft Health Reserves Guidance Manual

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change Appendix A-010 paragraph 22 to read,

“With respect to ~~any block of contracts, or with respect to an insurer’s health business as a whole~~ a group of contracts combined in a manner consistent with how they are marketed, serviced and measured, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a give valuation date.”.

Recommending Party:

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Use of the phrase liquidation basis

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Paragraph 32 of the Preamble refers to statutory reporting as a “liquidation basis of accounting”. This is not an accurate portrayal. Assets are not generally held at fair or market value. Neither are liabilities.

*Existing Authoritative Literature: Paragraph 32 of the Preamble

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Edit the final sentence of the Preamble paragraph 32 to read, “Accordingly, the income statement is a secondary focus of statutory accounting and should not be diminished in importance to the extent ~~contemplated by a liquidation basis of accounting allowed by the requirements of the system.~~”.

Recommending Party:

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Long Term Care is not referenced in SSAP 51 (Life)

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix A-641 paragraph 6 & 7 refer to the valuation of long term care benefits under life policies or riders. This appendix should be referenced by the life valuation statement SSAP 51.

*Existing Authoritative Literature: Appendix A-641 paragraph 6 & 7

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change SSAP 51 paragraph 43 to read, "This statement incorporates the requirements of Appendices A-225, A-235, A-585, A-620, [A-641](#), A-812, A,820, A-821, A-825, and the Actuarial Standards Board Actuarial Standards of Practice."

Recommending Party:

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: The reference to Managing General Agents appears to be a unintended

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix A-225 is referenced as relevant literature to SSAP 51, Life contracts. This appendix defines Managing General Agents. It is not relevant to SSAP 51. It appears that the intended reference is Appendix A-255 on Modified Guaranteed Annuities.

*Existing Authoritative Literature: SSAP 51 paragraph 43, Appendix A-225 and Appendix A-255

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*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change SSAP 51 paragraph 43 to read,

“This statement incorporates the requirements of Appendices A-~~225~~255,...”.

Recommending Party:

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Redundant paragraphs

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Appendix A-585 paragraph 8j and 10 say the same thing.

SSAP 54 paragraph 18 and paragraph 23 cover the same topic. SSAP paragraph 23 can be eliminated.

*Existing Authoritative Literature: Appendix A-585 paragraph 8j and paragraph 10, SSAP 54 paragraph 18 and paragraph 23

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Eliminate A – 585 paragraph 10.

Eliminate SSAP 54 paragraph 23.

Recommending Party:

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Submitted 5/18/01

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Conflicting references

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Several of the SSAPs have a section that states reserves shall meet the provisions of various appendices and actuarial guidelines. Later in the SSAP, relevant literature is listed. In the relevant literature section, the actuarial guidelines are not mentioned. This inconsistency may lead to different interpretations about what standards are to be applied.

*Existing Authoritative Literature: SSAP 51 paragraph 15 & 43, SSAP 52 paragraph 8 & 19, SSAP 54 paragraph 11 & 37, SSAP 56 paragraph 23 & 30, SSAP 59 paragraph 7 & 20

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Edit the following sections to have consistent references:

Change SSAP 51 paragraph 43, SSAP 52 paragraph 19, SSAP 54 paragraph 37, SSAP 56 paragraph 30, SSAP 59 paragraph 20 to read,

“This statement incorporates the requirements of Appendices ..., ~~and~~ the Actuarial Standards Board *Actuarial Standards of Practice*, and the actuarial guidelines found in Appendix C of this Manual.”

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: What does the term “laws and regulations” encompass?

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 51 paragraph 45 states that contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. In addition to formal laws and regulations, actuarial guidelines provide an important source of instruction in the preparation of statutory reserves. Bulletins from the state insurance department are sometimes the source of instruction. The practitioner will need to know whether or not the term “laws and regulations” encompasses items such as actuarial guidelines or bulletins. Whether or not these other sources are to be considered may have a material effect on the reserves of many companies.

The same issue applies to SSAP 52, 54, 56 and 59.

*Existing Authoritative Literature: SSAP 51 paragraph 45, SSAP 52 paragraph 21, SSAP 54 paragraph 39, SSAP 56 paragraph 31, SSAP 59 paragraph 22

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change SSAP 51 paragraph 45, SSAP 52 paragraph 21, SSAP 54 paragraph 39, SSAP 56 paragraph 31, and SSAP 59 paragraph 22 to read, “Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. These shall be understood to include anything considered authoritative by the domiciliary state such as actuarial guidelines, bulletins and permitted practices.”.

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Are certain reserves required or suggested?

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	X
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

SSAP 51 paragraph 36, SSAP 52 paragraph 15 and SSAP 54 paragraph 25 are sections entitled “Additional Reserves Not Included Elsewhere”. These paragraphs begin with a variation of the statement “Additional actuarial liabilities are commonly held for such items as:”. It is not clear whether or not these reserves are meant to be mandatory. The language as written may be confusing to the practitioner.

Six items are listed in SSAP 51 paragraph 36 as “not included elsewhere”. In fact, four of these items are listed in the appendices. Deficiency reserves are covered in A-585 and A-820. Substandard extra premiums, extra mortality on group conversions, and guaranteed insurability options are also covered in A-820. Additional reserves required based on cash flow testing is covered in A-820. Additional reserve for policies which contain conversion privileges are covered in A-820.

*Existing Authoritative Literature: SSAP 51 paragraph 36, SSAP 52 paragraph 15 and SSAP 54 paragraph 25

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change SSAP 51 paragraph 36 to read,

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

~~a. Valuation net premiums in excess of gross premiums (i.e. deficiency reserves);~~

~~b.a. Provision for either nondeduction of deferred fractional premiums or return of premiums at death of the insured~~ and;

~~e.b. Surrender values in excess of reserves otherwise required or carried;~~

~~d. Substandard extra premiums, extra mortality on group conversions, and guaranteed insurability options;~~

~~e. Additional reserves required based on cash flow testing and/or asset/liability matching requirements; and~~

~~f. Additional reserves for policies which contain conversion privileges or future contingent benefits.”~~

Change SSAP 52 paragraph 15 to read,

“Additional actuarial liabilities are commonly held required for such items as:”

Change SSAP 54 paragraph 25 to read,

“Additional actuarial liabilities are commonly held required for such items as:”

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**Statutory Accounting Principles Working Group
Maintenance Agenda Submission Form
Form A – Non-Substantive**

Issue: Does codification preempt state laws?

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input type="checkbox"/>	X	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Description of Issue:

Paragraph 4 of the Preamble states that “It is intended to establish a comprehensive basis of accounting recognized and adhered to in the absence of, conflict with, or silence of state statutes and/or regulations.”. The phrase “conflict with” implies that codification takes precedence over state legislative and regulatory authority. The same paragraph states that, “...this Manual is not intended to preempt states’ legislative and regulatory authority.”. There is a conflict in these two statements.

*Existing Authoritative Literature: Paragraph 4 of the Preamble

*Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previously submitted on April 7, 2000 by R. Thomas Herget, FSA, MAAA, Executive Vice President, PolySystems, Inc.

*Information or issues (included in *Description of Issue*) not previously contemplated by the SAPWG: None

Recommended Conclusion or Future Action on Issue:

Change the last sentence of paragraph 4 of the Preamble to read, “It is intended to establish a comprehensive basis of accounting recognized and adhered to in the absence of, ~~conflict with,~~ or silence of statutes and/or regulations.”.

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FORM B

NAIC Emerging Accounting Issues (EX4) Working Group

Issue: Margin for adverse deviation in claim reserves

Raised by: American Academy of Actuaries' Committee on Life Insurance Financial Reporting

Description of Transaction/Event: Estimation of claim reserves

Accounting Issues: SSAP 55 paragraph 10 directs management to record its "best estimate" of its unpaid claim liability. The term best estimate is generally understood to exclude any margin for adverse deviation.

In general, practicing actuaries have included a margin for adverse deviation in their claim reserves for both life and A&H business.

Paragraph 29 of the Preamble speaks to conservatism. It states that "... the concept of conservatism should be followed when developing estimates as well as establishing accounting principles for statutory reporting."

Actuarial Standard of Practice #5, Incurred Health and Disability Claims covers in course of settlement and incurred but unreported (IBNR) liabilities for Accident and Health (A&H) insurance. A new version of the standard was effective on May 1st, 2001. Section 3.3c states that the actuary should consider "... what margin for uncertainty, if any, might be appropriately included [in the unpaid claim liability]."

The NAIC's Life and Health Actuarial Task Force is working on a Health Reserves Guidance Manual. The current draft of the manual contains a significant section on conservatism in reserves.

The likely interpretation of SSAP 55 paragraph 10 is in conflict with current practice, the concept of conservatism, actuarial standards of practice and the draft Health Reserves Guidance Manual. It may lead to confusion and a significant lowering of A&H reserves for codification.

We would like the Emerging Accounting Issues Working Group to consider the desired role, if any, of the margin for adverse deviation in the calculation of claim reserves.

Authoritative Literature: Actuarial Standard of Practice #5, Incurred Health and Disability Claims, NAIC Draft Health Reserves Guidance Manual

Activity to Date (other State Departments of Insurance, SEC, FASB, etc.): None

Other:

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