



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

**Session # 10 PD: Revisions to NAIC Actuarial
Opinion Standards**

Matthew P. Chamblee, FSA, MAAA, CERA

Alan Furan, FSA, MAAA

Shari A. Westerfield, FSA, MAAA

Revisions to NAIC Health Actuarial Opinion Standards

Shari Westerfield, FSA, MAAA
Actuary, Blue Cross Blue Shield Association

Alan Furan, FSA, MAAA
Health Actuary, Ohio Department of Insurance

Matt Chamblee, FSA, MAAA
Consulting Actuary, Milliman Inc

Society of Actuaries
Health 2009 Spring Meeting
Session #10, June 8, 2009

Today's Agenda

Overview
of Major
Changes

Regulator's
Viewpoint

Preparer's
Viewpoint

Proposal Process

- Accident & Health Working Group developed new health actuarial opinion instructions proposal
 - Instructions are included within the health annual statement instructions
 - Proposal referred to Blanks Working Group in February
- Blanks Working Group exposed it for public comments at the NAIC Spring Meeting
 - Proposal will be considered for adoption at the NAIC Summer Meeting on Saturday, June 13
 - If adopted, will be effective for 2009 Annual Statement filings

Appointed Actuary

- “Qualified health actuary” (a member of the American Academy of Actuaries, or a person recognized by the Academy as qualified)
- Appointed by the Board of Directors or a committee of the board
- Domiciliary commissioner must be notified within five business days
- Special requirements for replacing a prior Appointed Actuary

Body of Opinion

- Prescribed Language
 - Sample language is now “prescribed language”
 - Actuary may deviate, but must indicate so
- Table of Key Indicators
 - Check box for opinion type (*unqualified, qualified, adverse, or inconclusive*)
 - For each section, actuary must indicate if altered or added to language
 - Check box for “Deviation from Standard” wording regarding an ASOP

Actuarial Memorandum

- Confidential document
- Due by May 1
- The Memorandum must include:
 - An exhibit comparing the actuary’s conclusions to the amounts on the Annual Statement;
 - Documentation of the reconciliation from the data for analysis to Underwriting and Investment Exhibit Part 2B;
 - Follow-up studies documenting the prior year’s claim liability and claim reserve run-off; and
 - Documentation of the assumptions used for contract reserves and any material changes, including any studies supporting the adequacy of the margin.

Opinion and Blank

- NAIC is revising the Standard Valuation Law
 - Health companies will be subject to it
 - Actuarial Opinion and Memorandum Requirements (AOMR) being revised as VM-30
- Opinion instructions based on the blank filed
 - Paragraph in VM-30 states that orange and yellow blank filers follow the actuarial opinion requirements for these annual statements
 - These companies are not subject to the actuarial opinion requirements in VM-30

Today's Agenda

Overview
of Major
Changes

Regulatory
Viewpoint

Preparer's
Viewpoint

Today's Agenda

Overview
of Major
Changes

Regulatory
Viewpoint

Preparer's
Viewpoint



Department of
Insurance

Ted Strickland, Governor

Mary Jo Hudson, Director

Health Actuarial Opinion Changes

Alan Furan, FSA, MAAA

Agenda

- Why where these changes needed
- Prescribed Wording
- Table of Key Indicators
- Other



Department of
Insurance

Why were changes needed?

- Define an appointed actuary
- Require appointed actuary report findings to the Board or Audit Committee
- Require the reliance statement

Why were changes needed?

- Make it easier for non-actuaries to review the opinions
- Define what Qualified, Adverse and Inconclusive opinions are

Consistency

- Joint CASTF/LHATF subgroup charged with developing the process for the appointment of the actuary
- Definitions
- Reliance statements

Appointed Actuary

- If you were appointed according to the new instructions in the past, you don't need to be re-appointed
- If you were not appointed according to the new instructions, you need to be appointed in order to sign the opinion for 2009.

Prescribed Wording

- Prescribed wording is preferable if it fits the situation
- Not using prescribed wording does NOT imply that something is wrong
- Makes it easier for non-actuaries to review the opinions

Prescribed Wording

- Scope section lists 6 items to opine on
- Need these to be included in the opinion, even if zero.
- Item H is to be used for any other actuarial reserve or liability not included in A – G.

Table of Key Indicators

This Opinion is: Unqualified Qualified Adverse Inconclusive

IDENTIFICATION SECTION

Prescribed Wording Only Wording Prescribed Wording with Additional Wording Revised

SCOPE SECTION

Prescribed Wording Only Wording Prescribed Wording with Additional Wording Revised

RELIANCE SECTION

Prescribed Wording Only Wording Prescribed Wording with Additional Wording Revised

OPINION SECTION

Prescribed Wording Only Wording Prescribed Wording with Additional Wording Revised

RELEVANT COMMENTS

Revised Wording

The Actuarial Memorandum includes "Deviation from Standard" wording regarding conformity with an Actuarial Standard of Practice



New Stuff

- Relevant Comments Section
- Actuarial Memorandum



Definitions – Adverse Opinion

- An actuarial opinion in which the appointed actuary determines that the reserves and liabilities are not good and sufficient.

Definitions – Qualified Opinion

- When in the actuary's opinion the reserves for a certain item or items are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on those items, the actuary should issue a qualified opinion.
- A qualified opinion should state whether the reserves would be good and sufficient without the items in question.
- There's also a provision that the actuary doesn't have to issue a qualified opinion if the actuary determines the item in question is immaterial.

Definitions – Inconclusive Opinion

- If for some reason the actuary can't reach a conclusion due to deficiencies or limitations in the data, analysis, assumptions or related information, then the actuary should issue an inconclusive opinion.
- The opinion should then include the reasons why a conclusion could not be reached.

One more thing

- Page 2, line 13.3, Accrued retrospective premiums
- This should be included in Item 5.H.

FYI

- Ohio in process of changing Life AOMR
- Health blank users must use Health Opinion instructions

Revisions to NAIC Health Actuarial Opinion Standards

Session 10

Matt Chamblee, FSA, MAAA
June 8, 2009



Preparer's Point of View

- Process to be Appointed
- Preparing the Actuarial Memorandum
- Helpful information regarding Actuarial Memo and Opinion
- Reporting to the Board of Directors

Process to be Appointed

- Health Actuaries who render the opinion have to be appointed
 - Have to be appointed by board or committee of the board
 - Have to be appointed by December 31st of the year you are rendering an opinion of
 - A simple letter containing the prescribed information has to be sent to the commissioner by the entity within 5 days of appointment
 - There is a prescribed process for replacing an appointed actuary
 - If you rendered the opinion in 2008 and were not appointed formally as outlined in the annual statement instructions then you need to be appointed before you can render the 2009 opinion.

3

Preparing the Actuarial Memorandum

- The actuarial memorandum and work papers will be available for regulatory examination for seven years
- Has to include a narrative
 - Has to be able to clearly explain to management, regulator, or other authority
 - Has to have sufficient detail to explain findings, recommendations, and conclusions as well as their significance.

4

Preparing the Actuarial Memorandum

- Includes a technical component
 - Intended audience is another actuary (practicing in same field)
 - Show analysis from basic data to the conclusions
 - Probably not as detailed as the working papers but will show sufficient steps so that another actuary could follow and evaluate

5

Preparing the Actuarial Memorandum

- The Memorandum must also include
 - Exhibit that ties to the Annual Statement, and compares to the actuary's conclusions
 - Documentation of reconciliation to the Underwriting and Investment Exhibit 2B

6

Preparing the Actuarial Memorandum

- The Memorandum must also include
 - Any follow-up studies documenting claim run-off of previous year considered necessary by actuary

 - Assumptions contract reserves including any material changes of assumptions from previous memorandum. Should also include any studies which support adequacy of margin in the contract reserves

7

Helpful Information Regarding the Opinion

- Know the requirements -
 - Some states require Asset Adequacy testing for Health Insurance Companies even if submitting an orange blank
 - Florida and Illinois for example

 - Adds additional complexity and requirements

8

Helpful Information Regarding the Opinion

- Know the requirements -
 - Some states require extra language that must be included or requirements that must be fulfilled
 - Texas for example requires an explicit statement about the amount of premium deficiency reserves even if the amount is zero.

9

Helpful Information Regarding the Memorandum

- Composing the Narrative -
 - May contain a section such as “Background”
 - Would describe pertinent history of the company and products it offers
 - May contain a section such as “Methodology/Results”
 - This would describe what the actuary did to arrive at the results and also the results/conclusions/findings or any recommendations.
 - This section must have sufficient detail as to why and what were the conclusions – not just amounts in sentences.

10

Helpful Information Regarding the Opinion and Memorandum

- Peer review of the product is now needed more than before
Need for peer review of the process as well as the Opinion, Memorandum, and work papers

11

Reporting to the Board of Directors

- Reporting does not have to be in person or live – can be accomplished by composing a report to be presented to Board or Audit Committee
 - Should be delivered in a way that the board can understand relevant information
 - Hopefully will encourage a “conversation” between Board or Audit Committee and actuary
- The minutes of the Board should indicate that the Appointed Actuary has presented such information and that the Actuarial Opinion and Memorandum were made available

12