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Session 19OF
Advanced Regulatory Topics

Panelists: Kerry A. Krantz
Ernst Johnson

Summary: Regulators share their perspective on valuation actuary related issues, including current areas of focus of the NAIC Life and Health Actuarial Task Force, attitude toward relying on the judgment of company actuaries, assessment of how the valuation actuary concept is working, and peer review. Attendees gain an understanding of the significant issues that regulatory actuaries are facing and are better prepared to address year-end statutory financial reporting matters and asset adequacy analysis considerations.

MR. KERRY A. KRANTZ: Unusual things have been happening in Florida lately. Instead of Janet Reno, it looks like the Democrats have nominated Bill McBride, and instead of Julia Philips, I guess you have me. Along with me is Ern Johnson. Before I tell you about myself, I'll tell you about Ern. Ern has done actuarial work for 30 years, 24 as a life insurance company employee, and six as chief actuary, and six as an appointed actuary. He spent five years as state regulator for the Virginia Bureau of Insurance. He reviews asset adequacy analysis opinions and memos of Virginia domiciled companies.

Since neither Ern nor I was able to be in New Orleans, Julia was going to bring us up-to-speed on the accomplishments of the Life and Health Task Force (LAHTF) there. I asked Mark Peavy if he could send me some of his notes from there. He's going to read those notes to you. I hope that his comments will give you some understanding of what's currently going on at the LAHTF, the Accident Health Working Group, and the Life Liquidity Risk Working Group, which I think may have completed its work in New Orleans. Also helping us out is Donna Claire, who was there. She can help us get through some of the rough edges. So without further adieu, I'll introduce Ern Johnson.

MR. ERNEST JOHNSON: I think all of us fall into one of two groups. The first group is those who were at the recent LAHTF meeting or who attended Donna's session, session 2. The second group is those of us who did not attend the LAHTF meeting or Donna's session. The summary I have from Mark Peavy is very abbreviated, so if you were at the LAHTF session or Donna's session earlier, this probably won't add much for you. If you were not at either meeting, this probably won't be sufficient for you, but in either case, I hope it will be of some small benefit to all of us.

These are Mark Peavy's summaries. First is the LAHTF portion. The task force adopted the recognition of the 2001 CSO Mortality Table for use in determining minimum reserve liabilities and the nonforfeiture benefits model regulation. The primary purpose of this regulation is to adopt the 2001 Commissioners Standard Ordinary Mortality Table as the new valuation and nonforfeiture standard for life insurance. The task force adopted revisions to the Generally Recognized Expense Table (GRET). The revisions were adopted at the recommendation of the Society of Actuaries Committee on Life Insurance Company Expenses. The GRET provides the basis for incorporating other than the company's fully allocated expenses into the illustrations. The revisions will be known as the 2003 GRET and will become effective January 1, 2003. The new table replaces the 2001 GRET, the standard currently in use.

The task force exposed for comment Draft Actuarial Guideline Quad M, Reserves for Variable Annuities with Guaranteed Living Benefits. A conference call will be held in mid-October to receive comments on the draft. It is hoped the task force will adopt the guideline at that time. Assuming that occurs, the task force requests that a joint conference call be held with the A Committee a month prior to the winter national meeting. If the guideline is adopted by the A Committee on the joint call, it will permit the Executive Plenary to consider this matter at the winter national meeting. Adoption by the full membership in 2002 will enable this reserving standard to apply to 2002 annual statements.

The task force continued its discussions on the minimum nonforfeiture values for universal life insurance products with Secondary Guarantees Model Regulation. An alternative proposal was submitted by an interested party. Discussions will occur relative to the alternative on a conference call prior to the winter national meeting. The task force received comments from the American Council of Life Insurers (ACLI) and the American Academy of Actuaries on the project to revise the standard nonforfeiture law for individual deferred annuities. Also, the Academy made a presentation on long-term alternatives to the formulaic standards in the standard valuation law (SVL) and suggested revisions to the current version of the SVL were reviewed. Conference calls on all of these matters will be held prior to the winter national meeting.

Several requests for assistance from the Statutory Accounting Principles Working Group were reviewed. It is anticipated that work on responding to these requests will be completed by the winter national meeting. The task force approved a set of recommended charges for 2003. That's all on Mark's summary for the LAHTF.

At the summer national meeting, the Accident and Health Working Group adopted a long-term care guidance manual with the understanding there would be a review during this summer to eliminate any drafting errors. That review identified some drafting errors that have been corrected. The working group adopted the revised manual at this meeting. As reported at the prior meeting, the manual is intended to be used in evaluating compliance with the revised rating requirements contained in the long-term-care insurance model regulation. The manual was developed with significant input from the ACLI, the Health Insurance Association of America, and other industry representatives and appears to have wide support.

The working group received the results of two surveys, one to states and the other to companies on reserving practices relative to individual disability income and group long-term disability insurance. The results of the survey revealed a variety of ways in which companies establish morbidity assumptions as well as differences in the state's position relative to those practices. The purpose of the surveys was to assist the working group in determining whether clarification is needed in Health Insurance Reserve Model Regulation. A conference call will occur this fall to decide how to proceed.

The HMO Hospital, Medical and Dental Services or Indemnity Company (HMDI) Reserve Subteam continued its work in addressing the similarities and differences between gross premium valuations and premium deficiency reserves. The subteam had concluded that the primary regulatory goals of reserves for health insurance are twofold: (A) ensuring the long-term financial solvency of the health entity, and (B) addressing short-term deficiencies in revenues, i.e., long-term adequacy and short-term sufficiency. The subteam has requested the assistance of the American Academy of Actuaries Health Practice Financial Reporting Committee in formulating the general principles that must be adhered to in achieving these goals. This work is part of the working group's overall project to achieve greater consistency in financial reporting among the various types of entities writing health coverage. These discussions will continue during conference calls prior to the winter national meeting.

The Long-Term Care Reserve Subteam discussed several aspects of long-term-care reserving they had previously identified as needing further study. A conference call will occur this fall to begin discussions on specific recommendations.

The working group agreed to temporarily suspend work on reviewing the Medicare Supplement Refund Formula and Experience Exhibit pending the completion of a project currently underway by the Centers for Medicare and Medicaid Services to explore alternatives to the current methods used to determine premium refunds. The results from that project might affect the recommendations of the working group. The working group approved a set of recommended charges for 2003. So much for the Accident and Health Working Group.

Last is Mark's summary for the Life Liquidity Risk Working Group. The Life Liquidity Risk Working Group completed its report relative to the management of liquidity risk. The focus of the report is on stress liquidity risks, which are defined as problems brought about by an event that threatens the financial viability of the insurer. The sections of the report discuss the various methods of identifying and managing this risk.

Some key recommendations of the report follow. The first item is inclusion of a fund demand disclosure for institutional business exhibits in the annual statement. This exhibit would include common control or ownership of products where the total fund demands, equals, or exceeds the lesser of $10 million or 10% of company surplus for which the decision to access funds is in a single person or entity. The earliest duration in which the funds could be accessed would also be shown.

The second item is confidential reporting by companies in a format similar to that required by New York Circular Letter Number Four, which deals with issues regarding liquidity. The working group believes this circular letter is a highly effective tool for (1) determining a company's exposure to stress liquidity risk, and (2) identifying a company management plan for mitigating that risk.

The next item is inclusion of a certification from the insurer's highest-ranking officer that should be added to the annual statement. The certification would state (1) the officer has consulted with the appropriate people in his or her company in order to understand how the company is measuring and dealing with its stress liquidity risk, and (2) the company has the appropriate financial tools and management structures in place to assess that risk.

The last item is inserting additional guidance on monitoring stress liquidity risk into the Financial Condition Examiner's Handbook. One possible source of information is the February 2001 edition of the liquidity section of the Controller's Handbook from the controller of the currency. The handbook provides guidance that can assist in identifying an appropriate amount of liquid assets, measuring and projecting funding requirements during various scenarios, and managing access to existing and alternative funding sources. While the guidance provided was developing for banking regulation, the working group believes that it is possible to modify it to make it applicable and useful for life insurance company examinations.

The working group recommends that this report be forwarded to the Risk Assessment Working Group, the Financial Analysis Working Group, the Risk-Based Capital Task Force, and the LAHTF for recommendations they have on implementing the reports findings.

Finally, the working group has completed its work and requests that it be disbanded. It is requested that the NAIC staff monitor the recommendations of the committees to which the report is being forwarded to determine if further action by the A Committee is needed. If appropriate, the A Committee may wish to reconstitute the working group at some future point.

MR. KRANTZ: Thanks, Ern. First of all, I received an e-mail with regard to the Quad M conference call that's coming up. Attachment 3, dated September 10, 2002, is the latest version of Quad M. I'm going to do you the favor of not reading it to you.

The reason why I wanted to speak at this session is because the subject of long-term-care reserves came up in 2002 or late in 2001. A consultant from Milliman USA contacted the LAHTF and indicated that he felt that maybe the reserves for long-term-care contract reserves were excessively conservative, and he wanted to address the group. I think he appeared at the session before the New Orleans meeting. Larry Gorski formed a subgroup to review the documents and to try and come up with some items for discussion purposes.

The subteam issues are morbidity improvement and claim cost improvements, definition of moderately adverse, construction of morbidity tables that should not be designed to minimize reserves, unlocking of assumptions based upon emerging experience, and the recommended approach to calculate increments. I'm going to go into this in a lot more detail later on, but I think I'll go through a few other issues first.

Another issue is a survey that I did concerning adoption by other states of the Actuarial Opinion and Memorandum Regulation (AOMR). Those of you who are familiar with the history of the changes to the AOMR know that Shirley Shao several years ago formed a committee of the Academy to study state variations. One of the things that kept coming up with regard to state variations is adoption of rules and regulations at different times. Since the NAIC has now adopted the changes to the AOMR, I thought it would be nice if all the states were to try to adopt it at about the same time to permit companies to have less variation in how they report. One of the problems that happened in New Orleans, I was told, is that codification might have gotten ahead of the adoption-of-the-rule process. I'll go into that a little bit later as well.

When I did the original survey earlier in 2002, I believe there were about 29 companies and the District of Columbia included in my report on the Society website. It was about April 29. We now have 39 states and the District of Columbia, totaling 40 responders to the survey. As of now, 14 states, including Florida, where I'm the actuary, are planning to adopt it. We've had one state that said it wasn't planning to adopt it. As of the last survey, there was now one more. There are nine that are in the process of reviewing to determine a position, 13 that haven't addressed it but plan to, and two with other answers. One of these answers was somewhere between C and D, and I can't remember exactly why they said "other" for the second one of these. However, it is promising to have 14 states.

I believe earlier in 2002 Nebraska was going to be the first state to probably adopt it, but then I believe something came up and Nebraska decided to defer. As of right now, if all the steps that are needed to complete rule adoption take place, Florida will adopt the changes to the AOMR rule on January 1, 2003. This means that for annual statements that are filed in 2004 (in other words, 2003 annual statements), the Actuarial Opinion will need to be on an asset adequacy basis.

The next topic I wanted to talk about was proposed changes to the SVL. There are three main changes that are being proposed. The first one is the waiver of the certification that the state of filing reserve standards are being met if an asset adequacy analysis is being performed and a specific level of risk-based capital (RBC) is held. I think it's 300%. The second thing that I think a lot of people will be happy about is deficiency reserves are going to be eliminated. The third thing is in the SVL the commissioner or the department or the superintendent shall value or cause to be valued the reserve liability annually. In the past, that has been taken to mean Exhibit 8, Sections A and B, but now it's going to have a broader meaning, and it's going to include health insurance.

Another topic that's being addressed at LAHTF is replacing the Moody's Index. This index is referred to in both the SVL and the Model Policy Loan Interest Rate Bill. I think I heard somebody say that it might be in something else as well. I forget what they said, but, needless to say, there'll need to be something new. There are discussions about what it should be. Once there is an agreement, then each state will have to adopt that new index. I believe that since there's talk of amending the SVL, the best time to do this change will be if there is, in fact, the change to the model. You might as well do this at the same time.

The Life Risk-Based Capital Committee Task Force, or whatever it is at the NAIC, is dealing with an issue for the future of modified coinsurance (modco) with funds withheld issues. There needs to be development of a mechanism that addresses RBC for C-1 risks transferred in modco and coinsurance with funds withheld reinsurance when RBC disappears as a result of reinsurance with authorized reinsurers or otherwise. I think when I brought this issue up, originally, I said "disappear in the ocean." The mechanism should be similar to requirements for reserve credits for reinsurance with unauthorized reinsurers. Funds withheld and letters of credit equal to the reduction in RBC is a possibility.

Given the use of letters of credit, as indicated above, a review of the appropriateness of regulations to market the assets, on one hand, in a trust or escrow agreement supporting reinsurance reserve credits is needed. Marking to market of assets but not liabilities introduces a distortion in the relationship between liabilities and supporting assets. In a declining interest rate scenario, fixed-income investments generally increase in value. This permits a release in the dollar amount of letters of credit. In the other direction, I guess, if a letter of credit needs to be increased, there may be a timing issue with regard to that. More on that issue is consideration of a need to reflect the transfer of credit risk in the determination of bond size and asset concentration factors in the life RBC factor.

The credit for reinsurance role was discussed at a session I attended, and I brought up, in answer to a question, that one of the things that's required is that assets for modco or funds withheld be segregated. In I believe Appendix A-791 there's a question and answer with regard to whether or not you can segment instead of segregate. I refer you to that appendix in the Accounting Practices and Procedures Manual, but I believe it's strong in its opinion that you cannot.

The reason this comes up is because the ceding company will not include in the size factor and asset concentration factor the assets or portion of assets being segregated. An asset may no longer qualify as one of the ten largest. Therefore, you now need to identify the 10 largest assets remaining after you've segregated off the assets to the ceding company. Likewise, you have to inform the assuming company that you've assigned these assets to them, so they can take that into account in doing their 10 largest assets.

Health reserves morbidity improvement. During a conference call, regulators expressed their feeling that improvement may be used from the date of Experience Table to the date of valuation, but the unanimous consensus was that no improvements should be included beyond the valuation date. The Financial Reporting Section listserve for statutory discussed this issue, and I gave an example in the discussion of how the 2001 CSO was developed. If you look at the report, they talk about how the experience from the year that it centered on was brought forward to 2001, the year that the table was expected to take effect. My argument is that it is a standard of practice. I believe it's a long-standing one, so it's not a conservative idea to assume improvement in morbidity, just as you would not assume improvement in mortality for life insurance. Again, you might for annuities, because in that case it would be conservative, but for life insurance you wouldn't. I would say that that analogy would be a basis for accepted practice.

The next thing, and I mentioned this at the first session this morning, is the meaning of moderately adverse. There's really no definition in the model regulations or the NAIC Guidance Manual for rating aspects of Long-term-Care Insurance Model Regulation. There is a definition in the new ASOP 22 in paragraph 2.15. It says, "Conditions that include one or more unfavorable but not extreme events that have a reasonable probability of occurring during the testing period."

Other places where I got material to review for this discussion include *Long-Term Care News*, August 2002, which is posted on the Society website. There was a paragraph headed, "The

Meaning of Moderately Adverse Experience." Again, this is from the point of view of a pricing actuary, but I think it's pertinent. The author stated that, "Defining the term would be useful to pricing actuaries when making an actuarial certification. Defining the term would be difficult considering the limited experience available for long-term care. Defining such terms goes beyond the scope of what a practice note covers."

Our rule in Florida is 4-154 for health insurance reserves, and it is virtually the same as NAIC Model 10 or Appendix A-010 in the Accounting Practices and Procedures Manual with notable exceptions required by the attorney for our legislature. To assist in adopting the rule, and because some of the definitions did not have specifics in them, he requested that I go into more detail before I defined what adverse conditions were. First of all, I decided I'd better define what a best estimate was before I defined what's adverse from best estimate, so I just thought of a simple definition. It's the assumption designed to produce results that, on average, will prove to have been too high half the time and too low half the time. Alternatively, it is assumptions that have the greatest likelihood of being correct. What I'm trying to do here is a sort of "I-know-it-when-I-see-it" type of test. I think most people would agree what best estimate means. It doesn't mean something to get your reserves to zero.

The next definition I had was sound values. To place a sound value on a claim liability means to estimate the amount of future payments in such a way as to reduce the likelihood that the estimate will be less than the amounts ultimately paid. The motivation behind this definition is, since long-term care is only a decade or a decade-and-a-half old, we need to have definitions that err on the side of conservatism. If somebody's going to say that there just isn't enough experience yet to decide something, then they ought to come up with their best idea of what it is and then double it, or triple it, or come up with something that they believe is not excessive, but is moderately conservative. Again, excessive refers to the flavor of what's in the ASOP 22.

Placing a sound value requires that as uncertainty of the amounts ultimately paid increases, the amount by which the estimated claim liability exceeds the estimate future amount of payments also increases. When past experience exists, it could be subject to emerging trends in recovery

rates, inflation, and other factors that can be used to make reasonable estimates. Again, there's nothing wrong with using trends. The question is, when do you stop trending?
In the absence of prior experience, the actuary shall rely on commonly accepted estimations such as a fixed number of months of premium, or paid claims, or an amount such that the paid claims plus the changes in the liability equal a percentage of premium. When I was first studying to be an actuary, we had X number of months of paid claims or X number of months of premium as substitutes for claim reserves until some experience emerged and maybe a weighting of that as the credibility increased.

Moving along to get to my final goal, I defined reasonable margins. These are adjustments to most likely assumptions necessary to produce contract or claim reserves that reflect sound values. The use of margins results in reserves that exceed an estimate of most likely future benefit payments. The margin for the adverse experience is equal to this excess. I've finally come full circle from my first definition to where I wanted to get, which is a margin for adverse deviation. I've basically said, here's best estimate, and here's something that's more prudent. The difference between the two is the margin.

One of the things that I'm concerned about in the model regulation and in our rule is the statement that says, "Morbidity tables shall contain a pattern of incurred claims cost that reflects the underlying morbidity and shall not be constructed for the primary purpose of minimizing reserves." My concern is, is this enforceable? Is there a bright-line test that says somebody has purposely designed the claim costs to minimize reserves? I don't know if that's possible. How do we even know when it has occurred?

The other issue that was discussed was unlocking of assumption based on emerging experience. The consensus of the regulating actuaries on a conference call was that there doesn't appear to be anything in the rule that says you can't unlock once the experience emerges. Again, I probably should have said this at the beginning. What we're talking about is claim cost developed by the actuary in the absence of a prescribed table. I think that was probably implied, but it's better that I get it started explicitly. However, if you're going to lower your reserves, some states require that you notify them and get permission. So in every state where you file your reserves, you might need to look into getting their permission before you change assumptions that might lower your reserves. It's likely if you have a good demonstration, I would approve it.

The next thing I talked about was reserve increments. At the last company I worked for, before I joined the Department of Insurance, we had Medicare supplement policies, and part of my education was to learn how to calculate increments when changes in the Medicare law resulted in new net premiums for the increased benefit. There is a method that I would use based on the method used at my prior company. This method says that because of bad experience on long-term care or something else, you might determine that your original claim costs are no longer adequate and decide that new claim costs are appropriate. Perhaps persistency wasn't good. This is another element of the calculation of the contract reserves.

What you would do is you would calculate a new present of future benefits on the date you've determined this to be the case. You would calculate the present value on the old assumptions of that same present value on the same date. That difference would be the incremental present value. Using normal P times $\ddot{a}_x$ equals present value of future benefits. By using the difference, you can calculate a net increment premium. Then when you calculate terminal reserves in the future based on these same claim cost levels that you now are calling your current levels, you take the present value of future benefits on the valuation date minus the present value of original premiums and increment premiums. That terminal reserve would then be used to get your midterminal reserve. The total net premiums would be used to calculate your net unearned premiums. Obviously, if you've had a rate increase, your gross premiums would be your current level of gross premiums, and the unearned gross premium would be that portion that's unearned.

The next issue is the conference call on proposed changes to the SVL. After the adoption of the AOMR, the ACLI came to the task force and asked if consideration of changes to the SVL could be made. And John Hartnedy and Frank Dino put together a proposed change to the SVL, the three items I mentioned earlier. One of the things that I mentioned is that 300% RBC test. One problem was that they needed more specificity, whether it referred to authorized control level, regulatory control level, or something else.

As for the other issue, resistance may exist to using RBC levels for purposes other that for which RBC was intended. If RBC is used in this context, it will need to be made very clear that we're not judging the company's level as being undercapitalized. It's simply a condition for accepting a state of domicile opinion along with asset adequacy testing. It's not a question of is there enough RBC, or is there not. It's simply if you don't pass this test, don't even bother. You do the state of filing opinion.

It's unclear whether to make the scope of the SVL specific or general. There needs to be a balance between making it specific enough so that there is common understanding of which products fall within its scope without making it so specific that there are questions regarding its applicability to current or future product designs. I think that's obvious to everyone. The degree to which specificity can be achieved by utilizing the Actuarial Opinion Memorandum Regulation will now also need to be addressed.

One of the problems that has been discussed lately is the expression "good standing" in the American Academy of Actuaries. I've recommended that it be deleted, because only the American Academy of Actuaries can define what that means, and they choose not to. If the deficiency reserves are eliminated, there's a question of whether or not that could be made retroactive, and that will need to be addressed.

One of the changes to the SVL text that was presented by John and Frank was given to me so that I could make my comments, and I made some suggestions to Section 2. Inadvertently, when I crossed off the section that included the text dealing with Certificate of Valuation, it gave the impression that I felt that those would no longer be necessary. In fact, I think it's still a good idea to do those as long as it says that the commissioner shall annually value the reserves or cause them to be valued. I think the Certification of Valuation is a legal document that demonstrates that such a review has taken place, so I suggested inserting a line into the document saying that the commissioner will do that for the companies in that state of domicile. One of the concerns is the reference solely to the domiciliary commissioner in Subsection 3B, and that needs to be discussed further. Some had a concern that it should be based on both the state of domicile and the state of filing.

Subsection 6F, the Alternate Option, needs to be reviewed by me as well. It was raised whether the task force would consider other changes to the SVL besides the one Mr. Hartnedy and Mr. Dino note in their draft. My attitude is if we're opening it up, let's open everything up.

There's a place on the NAIC website in the research division where it lists the issues that are posted for comment when the LAHTF or the Accident and Health Working Group has conference calls. There is the 2003 GRET, the recognition of the 2001 table, the Quad M, an actuarial guideline for GICs, and minimum nonforfeiture values for universal life insurance products, and Variable Universal Life with Secondary Guarantees Model Regulation.

Finally, another place on the website is for changes to models or new models. You have to be careful with these because they don't stay there for long. Once they've been discussed, they tend to disappear, and if you click on them, they might no longer be available. At that point, you may have to get somebody to send you a copy, or you might have to buy a copy.

A great deal of gratitude is owed to Faye Albert for the work that she and her committee did on developing the 2001 CSO. I had a small part in that. This picture was taken in New Orleans at a dinner that was held to recognize those people that contributed to the development in New Orleans.

FROM THE FLOOR: I have a question regarding the AOMR rules. We were talking about the state of domicile opinion at last year's symposium and what that means. There was a great deal of disagreement or a lack of knowledge about what state of domicile means. This is something that has probably already been discussed in other sessions, but if somebody could enlighten me on what has happened over the last year, I'd appreciate it.

MR. KRANTZ: Can you be more specific? What's the type of data?

FROM THE FLOOR: Well, when you say you can issue a state of domicile opinion, what does that mean? Can you say your reserves meet the rules of this state and not all states, and do you have to provide additional information for that? That was all the stuff that was being discussed a year ago.

MR. KRANTZ: The revised AOMR includes, if a state wishes to include it, three options. If they wish to accept the state of domicile opinion, they may ask you to do one of these three conditions. If you do one of those three conditions, then they will accept your Actuarial Opinion from your state based on the reserves of your state. For example, one of them might be just to list all the differences between what your state's requirements are for a list of products they have listed in a printed document, or you might have to list the differences between codification and what your state requires. I can't remember what the third one is right now, but it's in the model. You can take a look at it.

MR. HENRY W. SIEGEL: I'm actually asking this question as a member of the Academy Committee on Qualifications. I'd like to go back to one of your slides.

MR. KRANTZ: You're not questioning my qualifications, are you?

MR. SIEGEL: No. I want to understand what the question is, Kerry.

It says that there's no "in good standing" category of membership at the Academy. In fact, you're either a member or you're not.

MR. KRANTZ: That's correct.

MR. SIEGEL: The definition of a qualified actuary for reserve valuations is a qualification standard for opining on reserves. There's a separate specific qualification standard. Now, my question is, what's the issue?

MR. KRANTZ: The words actually appear in either the law or the Model Regulation. I believe they're actually in the law. I have to take a look at it again. If they're in the law, they serve no useful purpose. They ought to be taken out.

MR. SIEGEL: I agree. If you're a member of the Academy, you have to follow the qualification standards and, basically, if you do the work you're prima facie qualified, or you shouldn't be doing it. If that's the only point that is redundant, then I agree.

MR. KRANTZ: Right. I believe the only reason to be not in good standing with the Academy is if you fail to pay dues. Are there any other questions?

MS. KAREN K. RUDOLPH: This is not really a question; it's more of a comment. One of your earlier slides mentioned that there were 14 states with adoption plans. Once you understand your state or the state that you're key in has plans to adopt their proposed AOMR, review it either on the website or make a contact to see exactly what their proposed legislation or regulation looks like. In Nebraska it looked exactly like the model, with the exception that the alternate options were missing. As an actuary following the issues, I felt that was a serious deficiency. I talked to the commissioner about that, and he actually hadn't noticed it, but upon further research I found out that his council removed it because they felt it was redundant with some other legislation that, apparently, was already in place. It could have been one of the reasons why, at the hearing, they tabled the issue.

MR. KRANTZ: In Florida, we haven't included those to start with either. We thought we would wait until companies told us which one they wanted so that we wouldn't adopt one and another state would adopt another one. One of the complaints that the ACLI had is nonuniform adoption, and nobody has come to us and explained to us which of those they would prefer. There's still a chance to change it. There's going to be a hearing coming, and we can make the change to add that before it finally goes in.

I'm more inclined to let it get in exactly the way it is now, and in the following year simply add it and see what a year of experience is or where the company is. For one thing, if Florida were the first state to adopt it, it wouldn't hurt if everybody knew what our laws and our regulations were. We're not asking them to learn all 50. We're just asking them to learn ours, and at first they won't have to learn all the rest of them. So if the companies want to do that, then just become familiar with our laws.

The other thing I want to do, since I mangled the Financial Reporting Section's listserve, is make an advertisement for that. If each person here represented a state and were to find out from their state what their plans were, they could maybe post that on the statutory listserve, or if you have a GAAP issue, post it on the GAAP listserve. If you're a chief actuary, put it on that listserve. I forget what the other one is. It's probably dealing with international issues if I remember correctly. Make use of these tools that the Financial Reporting Section is creating for you.

The statutory one has taken off pretty well. I put more than I should just to try to seed it, but I've been getting responses from people to the things I put out there, and nobody's complaining, "You're sending me junk mail." Oh, I take it back. One person that I know from Chicago complained. I told him, just get the *Daily Digest*. Then, if he doesn't like it, he just has one thing to delete. He won't have to delete five or six of them each day. Again, if people haven't signed up for the listserves, you can sign up for them and then click the thing for the *Daily Digest*. Then the worst case is you just have to delete one thing each day, either the next morning or at the end of the day. Try to make use of those.

MR. JOHNSON: Let me add a comment about the AOMR alternative to the State of Filing Opinion. It seems to me that the three options that are expressed in the model all require the commissioner or the company involved to take some positive action with the blessing of the commissioner before anything is really allowed in a state. For instance, a company domiciled in state A might request the commissioner in state B to be allowed to file only their state A opinion under one of the alternatives. Then the commissioner of state B would have to prescribe some manner in which he would allow that. These three alternatives describe the various manners in which that can be allowed.

So my interpretation of those three alternatives is that including them in the regulation does not automatically mean the commissioner is giving his blessing for their use. It merely means that there are three alternatives now in state B's regulation that, at some future date, the commissioner could make use of if he or she wanted to. For instance, one requires a listing of products that the companies respond to. Another is that companies seek specific approval from the commissioner. The third requires specific action after the adoption of the regulation. Just the adoption of the regulation does not automatically place that alternative into effect.

In Virginia, I am now considering whether or not to recommend to the commissioner to adopt this model. My idea now is that we probably should adopt it with all of these alternatives in place, with the idea that that does not make them automatically effective, but it merely makes them available at some point in the future if the commissioner desires to start allowing that kind of practice.

FROM THE FLOOR: I just wanted to clarify. The question might have been what's in that other category? Were those two states looking at the regulation, but deciding to change it or modify it in some way?

MR. KRANTZ: No. One of them said they're somewhere between C and D, and the other one said something like we think our answer is D. I don't remember why they said it was D. The other thing I asked for in the survey was adoption dates, trying to find out who else is close to adopting, and I got a few responses. I think two or three responses actually specified possible dates. One of them said we can try for 1993, but we don't think we're going to make it. The other one said 1993 or 1994. Yes?

FROM THE FLOOR: 1993.

MR. KRANTZ: Yes. I'm back to thinking of the 1985 amendments to the SVL instead of the 1980 amendments.

MR. BRUCE D. SARTAIN: I have a comment and then a question. With regard to Nebraska, I also e-mailed the commissioner from Nebraska last week in preparation for something I was doing here. He said that he's going to have another hearing because he plans to put those options into the model regulation to clear up that oversight.

The question people have asked me is whether there's any way to find out which states are adopting the AOMR for 2002. That's the major question, and the subquestion is some states have adopted codification in such a way that as soon as something is adopted by a certain working group and put into the Accounting Practices and Procedures Manual, it's automatically part of their law. The important working group passed the new AOMR, certain portions of it, just a week or two ago, and so there's worry out there. It would only take one state to have that procedure where they've automatically adopted the accounting manual. Any company that's selling business in that state or licensed in that state, will have to have a Section 8 Opinion. Let's go back to the broad question. Does anyone know of anywhere that companies can go to make sure that there's no state that is somehow adopting a new AOMR for year-end 2002?

MR. KRANTZ: I don't know without going to a whole bunch of websites. Let me tell you what happened recently. A consulting actuary from Texas told me he participated in the webcast. He listened to Russ Line and mentioned this survey during the webcast. The actuary asked me, whether I knew of any of the states that you just asked about that, by adopting codification, are essentially saying it becomes effective in 2002. Just a few minutes later I got an e-mail from Massachusetts responding to the survey saying that they're not exactly sure yet, so they aren't included among the 39 states. They think they've already adopted it because it's in codification.

Then I called Russ Line to congratulate him because the actuary in Texas said he had done a great job. I wanted to pass that onto him, because I believe in public praise and private criticism. He's working, also, on what's going on in Ohio to see how that works there as well.

FROM THE FLOOR: Kerry, you missed my session. I volunteered you to post the answer to this question on the SOA web discussion forum. If anyone finds anything out, e-mail me. We're going to be following up on anything that we hear. Actually, I have talked to Russ Line, and my guess is he's pretty sure it's going to be taken care of. I haven't gotten a definite answer about Massachusetts yet. The SOA website with a web discussion forum is one place. We will also send out an Academy Alert as soon as we find out.

MR. KRANTZ: In Florida, before we can adopt a rule, an attorney goes over the rules and tells us whether they're legal or not. For example, all those definitions were at his insistence that I clarify things. One of the things he always tells me every year, concerning why we have to readopt the annual statement instructions and readopt the Accounting Practices and Procedures Manual, is they change. We can't let the NAIC change these things and have them automatically become law. Just because the NAIC has said that it's in the Accounting Practices and Procedures Manual and it's effective immediately, that will conflict with the Florida law. Therefore, based on the preamble to the codification, where it says that it's not designed to replace state laws and regulations, our intent is we're going to do it the right way, which is first adopt the rule; then it will be in codification, and the two will be consistent. In Florida, basically, it would be a disclosure item.

FROM THE FLOOR: Actually, in talking to Russ Line, I found out it is possible that you would have to actually disclose the fact that you were doing a Section 7 Opinion when the answer might have been a Section 8 Opinion. His personal view was, and I'm probably speaking out of turn a little bit, you have to disclose how much it would cost. One of the costs he has commented on that you have to disclose was probably hiring the actuary in order to do the opinion, but it affects that. Even if you don't have to do a Section 8 Opinion, for example, in Ohio, that is still an open question. Again, as soon as he finds out an answer to that, we will try to get that information out to as many people as possible.

MR. KRANTZ: One of the things that was mentioned at the LAHTF was that they were going to post on the Academy website a copy of an outline for future solvency framework long-term statutory solutions. Has anybody here seen this document? I have it in my hand, so the answer is yes for me.

FROM THE FLOOR: The person actually who's posting this to the Academy website had the bad taste to get married, and therefore, she had different priorities, but they do plan on getting them up real quickly. I think it isn't up yet, but it will be up within the next week or two.

MR. KRANTZ: It's a committee that's chaired by David Sandburg, and he's the one who sent me this. If it's going to be up, the law's not going to change tomorrow, so you can wait until it gets there. Donna is also on the committee. The introduction to it says, "the following outline provides a historical backdrop as well as some possible future directions for U.S. solvency framework. These comments are consistent with the fundamental conclusions of the Unified Valuation System (UVS) Project as last reported in 1999 and 2000." The outline actually has four sections. It's the summary of past UVS recommendations and issues, what's happened since the 2000 UVS Report, recent solvency developments in the financial services industry, and what does this mean for regulators and actuaries. When it does become available, I'd recommend that you go on the Academy website and read it. It's very informative. It might be controversial. It's hard to say. When I talked to Dave on the phone, he gave me the impression that the task force found the report to be favorable.