

Dear Senators ANDREASON, Coiner & Werk, and  
Representatives BLACK, Henderson & Elaine Smith:

The Legislative Services Office, Research and Legislation, has received the enclosed rules of the Idaho Department of Insurance: IDAPA 18.01.77 - Actuarial Opinion & Memorandum Rule (Docket #18-0177-0801).

Pursuant to Section 67-454, Idaho Code, a meeting on the enclosed rules may be called by the cochairmen or by two (2) or more members of the subcommittee giving oral or written notice to Research and Legislation no later than fourteen (14) days after receipt of the rules' analysis from Legislative Services. The final date to call a meeting on the enclosed rules is no later than 7-16-08. If a meeting is called, the subcommittee must hold the meeting within forty-two (42) days of receipt of the rules' analysis from Legislative Services. The final date to hold a meeting on the enclosed rules is 8-13-08.

\_\_\_\_\_The germane joint subcommittee may request a statement of economic impact with respect to a proposed rule by notifying Research and Legislation. There is no time limit on requesting this statement, and it may be requested whether or not a meeting on the proposed rule is called or after a meeting has been held.

To notify Research and Legislation, call 334-2475, or send a written request to the address or FAX number indicated on the memorandum enclosed.

## **MEMORANDUM**

**TO:** Subcommittees for Administrative Rules Review of the Senate Commerce and Human Resources Committee and the House Business Committee

**FROM:** Eric Milstead, Principal Research Analyst

**DATE:** June 26, 2008

**SUBJECT:** Idaho Department of Insurance - IDAPA 18.01.77 (Docket No. 18-0177-0801)

The Idaho Department of Insurance has submitted notice of proposed rulemaking at IDAPA 18.01.77 -- Actuarial Opinion and Memorandum Rule. According to the Department, negotiated rulemaking was not conducted because the proposed rule simply eliminates an unnecessary filing requirement for certain insurers and, consequently, is unlikely controversial.

In short, the proposed rule provides an exemption from filing with Idaho a certain actuarial report for a foreign or alien insurer whose home state imposes reporting requirements substantially equivalent to those of Idaho. (See, Proposed Rule, Section 024.01.f) This proposed change will take effect December 31, 2008.

The proposed rule appears to be within the authority granted to the Department under Sections 41-211, Idaho Code.

cc: William W. Deal, Director, & Martha Smith

**IDAPA 18 - DEPARTMENT OF INSURANCE**  
**18.01.77 - ACTUARIAL OPINION AND MEMORANDUM RULE**  
**DOCKET NO. 18-0177-0801**  
**NOTICE OF RULEMAKING - PROPOSED RULE**

**AUTHORITY:** In compliance with Section 67-5221(1), Idaho Code, notice is hereby given that this agency has initiated proposed rulemaking procedures. The action is authorized pursuant to Sections 41-211 and 41-612, Idaho Code.

**PUBLIC HEARING SCHEDULE:** Public hearing(s) concerning this rulemaking will be scheduled if requested in writing by twenty-five (25) persons, a political subdivision, or an agency, not later than July 16, 2008.

The hearing site(s) will be accessible to persons with disabilities. Requests for accommodation must be made not later than five (5) days prior to the hearing, to the agency address below.

**DESCRIPTIVE SUMMARY:** The following is a nontechnical explanation of the substance and purpose of the proposed rulemaking:

Section 41-612(12)(d)(iv), Idaho Code, permits the Director to rely on a foreign or alien insurer's home state regulator regarding the preparation and filing of an actuarial report. This proposed rule amends IDAPA 18.01.77 to provide an exemption from filing with Idaho a report known as the Regulatory Asset Adequacy Issues Summary (the "RAAIS") for a foreign or alien insurer whose state of domicile imposes reporting requirements substantially similar to those imposed by Idaho. The RAAIS is not part of the NAIC's electronic filings due to its confidential nature. Therefore, insurers must file a paper copy with the Idaho Department of Insurance, or an electronic copy, which is printed. The Department does not utilize an actuary to review RAAIS reports filed by non-domestic insurers, thus this filing requirement is largely perfunctory. The rule change is proposed to take effect December 31, 2008 so the exemption can be implemented for the 2008 annual financial filing period, thus reducing the use and cost of paper and expense of mailing for affected insurers.

**FEE SUMMARY:** The following is a specific description of the fee or charge imposed or increased: N/A

**FISCAL IMPACT:** The following is a specific description, if applicable, of any negative fiscal impact on the state general fund greater than ten thousand dollars (\$10,000) during the fiscal year: N/A

**NEGOTIATED RULE MAKING:** In compliance with IDAPA 04.11.01.811, negotiated rule making was not conducted because this change simply eliminates an unnecessary filing requirement for certain insurers and is therefore unlikely to generate comments or controversy.

**ASSISTANCE ON TECHNICAL QUESTIONS, SUBMISSION OF WRITTEN COMMENTS:** For assistance on technical questions concerning this proposed rule, contact Martha Smith, Senior Financial Examiner, Idaho Department of Insurance, at 208/334-4315.

Anyone may submit written comments regarding this proposed rule making. All written comments must be directed to the undersigned and must be delivered on or before July 23, 2008.

DATED this 30th day of May, 2008.

William W. Deal  
Director Idaho Department of Insurance  
700 West State Street, 3rd Floor  
Boise, ID 83720-0043  
208-334-4250 (Voice), 208-334-4398 (Fax)

**THE FOLLOWING IS THE TEXT OF DOCKET NO. 18-0177-0801**

**024. DESCRIPTION OF ACTUARIAL MEMORANDUM INCLUDING AN ASSET ADEQUACY ANALYSIS AND REGULATORY ASSET ADEQUACY ISSUES SUMMARY.**

**01. General.** (7-1-97)

**a.** In accordance with Section 41-612(12), Idaho Code, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of his opinion regarding the reserves under a Section 022 opinion. The memorandum shall be made available for examination by the Director upon his request but shall be returned to the company after such examination and shall not be considered a record of the insurance department or subject to automatic filing with the Director. (3-30-07)

**b.** In preparing the memorandum, the appointed actuary may rely on, and include as a part of his own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of Subsection 021.02 of this chapter, with respect to the areas covered in such memoranda, and so state in their memoranda. (3-30-07)

**c.** If the Director requests a memorandum and no such memorandum exists or if the Director finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements, the Director may designate a qualified actuary to review the opinion and prepare such supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but shall be directed and controlled by the Director. (7-1-97)

**d.** The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the Director; provided, however, that any information provided by the company to the reviewing actuary and included in the work papers shall be considered as examination workpapers and shall be kept confidential to the same extent as is prescribed by Section 41-227, Idaho Code. The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this rule for any one of the current year or the preceding three (3) years. (7-1-97)

**e.** In accordance with Section 41-612(12), Idaho Code, the appointed actuary shall prepare a regulatory asset adequacy issues summary, the contents of which are specified in Subsection 024.03 of this chapter. The regulatory asset adequacy issues summary will be submitted no later than March 15 of the year following the year for which a statement of actuarial opinion based on asset adequacy is required. The regulatory asset adequacy issues summary will be maintained as confidential and not subject to public disclosure by the director in accordance with Section 41-612(12), Idaho Code, and Section 9-340D(5) of the Idaho Public Records Act. (3-30-07)

**f.** In accordance with Section 41-612(12)(d)(iv), the director will accept the regulatory asset adequacy issues summary of a foreign or alien company filed by that company with the insurance supervisory official of another state if the director determines that the summary reasonably meets the requirements applicable to a company domiciled in Idaho. Therefore, foreign or alien insurers required to file the regulatory asset adequacy issues summary in their home state are exempt from filing in this state, except upon request of the director, provided the other state has substantially similar reporting requirements and the summary is filed with the director of the other state within the time specified. ( )

**02. Details of the Memorandum Section Documenting Asset Adequacy Analysis (Section 022).** When an actuarial opinion under Section 022 of this chapter is provided, the memorandum shall demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in Subsection 021.04 of this chapter and any additional standards under this rule. It shall specify; (3-30-07)

**a.** For reserves; (3-30-07)

**i.** Product descriptions including market description, underwriting and other aspects of a risk profile

- and the specific risks the appointed actuary deems significant; (7-1-97)
- ii. Source of liability in force; (7-1-97)
  - iii. Reserve method and basis; (7-1-97)
  - iv. Investment reserves; (7-1-97)
  - v. Reinsurance arrangements; and (3-30-07)
  - vi. Identification of any explicit or implied guarantees made by the general account in support of benefits provided through a separate account or under a separate account policy or contract and the methods used by the appointed actuary to provide for the guarantees in the asset adequacy analysis. (3-30-07)
- b.** Documentation of assumptions to test reserves for the following: (3-30-07)
- i. Lapse rates (both base and excess); (3-30-07)
  - ii. Interest crediting rate strategy; (3-30-07)
  - iii. Mortality; (3-30-07)
  - iv. Policyholder dividend strategy; (3-30-07)
  - v. Competitor or market interest rate; (3-30-07)
  - vi. Annuitization rates; (3-30-07)
  - vii. Commissions and expenses; and (3-30-07)
  - viii. Morbidity. (3-30-07)
- ix. The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions. (3-30-07)
- c.** For assets: (7-1-97)
- i. Portfolio descriptions, including a risk profile disclosing the quality, distribution and types of assets; (7-1-97)
  - ii. Investment and disinvestment assumptions; (7-1-97)
  - iii. Source of asset data; (7-1-97)
  - iv. Asset valuation bases. (7-1-97)
- d.** Documentation of assumptions made for the following assets: (3-30-07)
- i. Default costs; (3-30-07)
  - ii. Bond call function; (3-30-07)
  - iii. Mortgage prepayment function; (3-30-07)
  - iv. Determining market value for assets sold due to disinvestment strategy; and (3-30-07)
  - v. Determining yield on assets acquired through the investment strategy. (3-30-07)

- vi. The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions. (3-30-07)
- e. Analysis basis: (7-1-97)
- i. Methodology; (7-1-97)
- ii. Rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed; (7-1-97)
- iii. Rationale for degree of rigor in analyzing different blocks of business; (7-1-97)
- iv. Criteria for determining asset adequacy; (7-1-97)
- v. Effect of federal income taxes, reinsurance and other relevant factors. (7-1-97)
- f. Summary of material changes in methods, procedures, or assumptions from prior year's asset adequacy analysis; (3-30-07)
- g. Summary of Results; (7-1-97)
- h. Conclusion(s). (7-1-97)
- 03. Details of the Regulatory Asset Adequacy Issues Summary.** (3-30-07)
- a. The regulatory asset adequacy issues summary shall include: (3-30-07)
  - i. Descriptions of the scenarios tested (including whether those scenarios are stochastic or deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values shall be determined by either extending the projection period until the in force and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining in force; (3-30-07)
  - ii. The extent to which the appointed actuary uses assumptions in the asset adequacy analysis that are materially different than the assumptions used in the previous asset adequacy analysis; (3-30-07)
  - iii. The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion; (3-30-07)
  - iv. Comments on any interim results that may be of significant concern to the appointed actuary; (3-30-07)
  - v. The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested; and (3-30-07)
  - vi. Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including but not limited to those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis. (3-30-07)
- b. The regulatory asset adequacy issues summary shall contain the name of the company for which the regulatory asset adequacy issues summary is being supplied and shall be signed and dated by the appointed actuary rendering the actuarial opinion. (3-30-07)

**04. Conformity to Standards of Practice.** The memorandum shall include a statement:

“Actuarial methods, considerations and analyses used in the preparation of this memorandum conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum.” (7-1-97)

**05. Use of Assets Supporting the Interest Maintenance Reserve and the Asset Valuation Reserve.**

An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support. The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum. (7-1-97)

**06. Documentation.** The appointed actuary shall retain on file, for at least seven (7) years, sufficient

documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions and the results obtained. (7-1-97)