• EXPOSURE DRAFT •

Proposed Revision of
Actuarial Standard of
Practice No. 28

Statements of Actuarial Opinion Regarding Health Insurance Liabilities

Comment Deadline:
October 30, 2010

Developed by the
ASOP No. 28 Task Force of the
Health Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
June 2010

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APPENDIX

June 2010

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Statements of Actuarial Opinion Regarding Health Insurance Liabilities

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision Actuarial Standard of Practice (ASOP) No. 28

This document is an exposure draft of a proposed revision of Actuarial Standard of Practice (ASOP) No. 28, now titled *Statements of Actuarial Opinion Regarding Health Insurance Liabilities.*

Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments in either the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments**. Include the phrase "ASB COMMENTS" in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system's spam filter.

If you wish to use conventional mail, please send comments to the following address:

ASOP No. 28 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended or truncated in any way. Comments will be posted in the order that they are received. The ASB website is a public website and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

This standard uses the deviation language adopted by the ASB in September, 2008. However, the deviation language makes reference to ASOP No. 41, *Actuarial Communications*, which is currently being revised. This language will be made final when the revised ASOP No. 41 is adopted.

Deadline for receipt of responses in the ASB Office: **October 30, 2010**

Background

In April 1997, the Actuarial Standards Board adopted ASOP No. 28, *Compliance with Statutory Statement of Actuarial Opinion Requirements for Hospital, Medical and Dental Service or Indemnity corporations and for Health Maintenance Organizations.*

This standard is a revised version of ASOP No. 28. The revisions were made in consideration of the development of the Health Annual Financial Statement Blank (successor to both the Health Service Company Blank and the Health Maintenance Organization Blank) and the revised health actuarial opinion instructions approved by the NAIC Blanks (E) Working Group in June 2009. The revision now encompasses all statements of actuarial opinion regarding health insurance liabilities of insurance or reinsurance companies and other health insurance financing systems (such as health benefit plans provided by self-insured or government plan sponsors).

Request for Comments

The ASB encourages comments on all sections of this exposure draft, and is particularly interested in receiving comments on the following areas:

1. Is the guidance provided in this proposed standard sufficiently clear? (Where concerns arise regarding clarity, please be specific as to the exact paragraph where the issue arises.)

2. The proposed version of ASOP No. 28 includes within its scope any opinion on health insurance liabilities that is prepared to comply with the NAIC Health Annual Statement Instructions, to comply with otherwise prescribed law or regulation, or is prepared to fulfill contractual or licensure requirements of the principal. Is the scope of the standard clear? Should it be expanded to apply to other situations in which a statement of actuarial opinion relating to health insurance liabilities may be prepared?

3. Is the proposed definition for valuation date appropriate?

4. The proposed language requires the actuary to disclose in the Statement of Actuarial Opinion or supporting memorandum all of the items listed in sections 4.1 and, if appropriate, those listed in 4.2. Are such disclosures appropriate?

5. Is the guidance regarding reliance on work of others and related disclosure clear?

6. Are further definitions of liability terminology needed?

7. Is it clear that this standard applies to any actuarial opinion, including those associated with GAAP accounting for health insurance liabilities? Is that appropriate?

The ASB reviewed the draft at its June 2010 meeting and approved its exposure.

The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

EXPOSURE DRAFT—June 2010

PROPOSED REVISION OF ACTUARIAL STANDARD OF PRACTICE NO. 28

STATEMENTS OF ACTUARIAL OPINION REGARDING HEALTH INSURANCE LIABILITIES

STANDARD OF PRACTICE

Section 1. Purpose, Scope, and Effective Date

1.1 Purpose—The purpose of this actuarial standard of practice (ASOP) is to provide guidance to actuaries in issuing a written statement of actuarial opinion regarding health insurance liabilities.

1.2 Scope—This standard applies to actuaries providing written statements of actuarial opinion and supporting memoranda with respect to health insurance liabilities of insurance or reinsurance companies and other health insurance financing systems (such as health benefit plans provided by self-insured or government plan sponsors) that provide similar coverages, under one of the following circumstances:

a. the statement of actuarial opinion is prepared to comply with NAIC Health Annual Statement instructions;

b. the statement of actuarial opinion is otherwise prescribed by law or regulation;

c. the statement is prepared to fulfill contractual obligations of the principal, including review of the work product of another actuary; or

d. the statement of actuarial opinion is represented by the actuary as being in compliance with this standard.

The standard does not apply to actuaries preparing statements of actuarial opinion that are subject to ASOP No. 6, *Measuring Retiree Group Benefit Obligations*, ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*, or ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. Actuaries submitting asset adequacy or property and casualty loss reserve opinions pursuant to the Standard Valuation Law should follow the guidance provided in ASOP Nos. 6, 22, or 36, as appropriate.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority) or for any other reason the actuary deems appropriate, the actuary should refer to section 4.3.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the original referenced document, the actuary should consider the guidance of this standard to the extent that it is applicable and appropriate.

1.4 Effective Date—This standard is effective for all statements of actuarial opinion regarding health insurance liabilities rendered on or after four months after the adoption of this standard by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice.

2.1 Actuarial Memorandum—A document that provides information regarding the analyses completed.

2.2 Claim—A demand for payment under the coverage provided by a plan or contract.

2.3 Contract Reserve—A liability established when a portion of the premium due prior to the valuation date is designed to pay all or a part of the claims expected to be incurred after the valuation date (sometimes referred to as an active life reserve or policy reserve). A contract reserve may or may not include a provision for unearned premiums.

2.4 Health Benefit Plan—A contract or other financial arrangement providing medical, prescription drug, dental, vision, disability income, accidental death and dismemberment, long-term care, or other health-related benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-assuming entity, including health benefit plans provided by self-insured or governmental plan sponsors.

2.5 Health Insurance Liability—An amount recorded in financial statements or accounting systems in order to reflect health benefit plan obligations. Common examples include health claims in course of settlement, health claims that are incurred but not yet reported, liabilities for settlements of provider contracts, contract reserves, experience refund liabilities, premium deficiency reserves, premium stabilization reserves, and liabilities for reinsurance payable.

2.6 Insurer—An entity authorized to write accident and health contracts under the laws of any state and which files its statutory financial statements using the Health Annual Statement Blank.

2.7 Moderately Adverse Conditions—Conditions that include one or more unfavorable, but not extreme, events that have a reasonable probability of occurring during the testing period.

2.8 Qualified Actuary—An actuary who meets the qualification requirements set forth by applicable law, regulation, insurance blank instructions or requirements defined by a licensing organization requiring an opinion of health insurance liabilities.

2.9 Provision for Adverse Deviation—An explicit amount to make some provision for uncertainty in a liability. This sometimes is called a Provision for Uncertainty or a Margin for Uncertainty.

2.10 Statement of Actuarial Opinion—An opinion expressed by an actuary in the course of performing actuarial services and intended by that actuary to be relied upon by the person or organization to which that opinion is addressed.

2.11 Valuation Date—The date for which the actuarial opinion is provided and the cutoff date for amounts recorded as paid in a financial statement. This sometimes is referred to as the accounting date.

Section 3. Analysis of Issues and Recommended Practices

3.1 Legal, Regulatory, and Contractual Requirements—When an actuary prepares a statement of actuarial opinion, the actuary should have the necessary knowledge to comply with specific requirements of law, regulatory authorities, and the principal to whom the opinion is to be expressed, as applicable. Further, if the opinion is prepared subject to contractual requirements, the actuary should have the knowledge necessary to meet the requirements of the principal.

3.2 Purpose of the Statement of Actuarial Opinion—The actuary should identify the intended purpose of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Health Annual Statement instructions.

3.3 Liabilities Being Opined Upon—The actuary should identify the following regarding the liabilities for which the opinion is being prepared:

a. the liability amount(s);

b. the valuation date; and

c. the accounting standards applicable for the liabilities (for example, US SAP, US GAAP, IFRS, etc.).

3.4 Stated Basis of Liability Presentation—The actuary should identify the stated basis of liability presentation, which is a description of the nature of the liabilities, usually found in the financial statement and the associated footnotes and disclosures. The stated basis often depends upon regulatory or accounting requirements. It includes, as appropriate, the following:

a. whether the liabilities are gross or net of specified recoverables, such as ceded reinsurance or salvage and subrogation, and follow any requirements for the treatment of these amounts specified by a particular accounting method;

b. the types of loss adjustment expenses covered by the liability;

c. when the opinion is limited to only a portion of the liability provision, the claims exposure to be covered by the liability (for example, type of coverage, line of business, year, state); and

d. any other items that, in the actuary's professional judgment, are needed to describe the liabilities sufficiently for the actuary's evaluation of the liabilities.

To the extent the actuary does not know the above items, the actuary should request this information from the principal. If unable to obtain these items from the principal, the actuary should identify what the actuary assumed to be the intended basis of the liability presentation for purposes of the liability evaluation.

3.5 Scope of the Analysis Underlying the Statement of Actuarial Opinion—The actuary should identify the scope of the analysis upon which the opinion is based, which includes the following:

a. the date of the data that underlies the actuary's analysis;

b. the date of the actuary's analysis, to the extent it differs from the date the opinion is signed;

c. if separate liability amounts for different liability items, such as unpaid claim liabilities, premium deficiency reserves and active life reserves, are disclosed in the statement of actuarial opinion, whether the actuary's opinion applies to those items in the aggregate or individually; and

d. any other items that, in the actuary's professional judgment, are needed to sufficiently describe the scope of the actuary's analysis.

3.6 Materiality—The actuary should evaluate materiality based on the actuary's professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion.

The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the liabilities. For example, for a statement of actuarial opinion for an insurance company that is to be used for financial reporting to insurance regulators, materiality might be evaluated in terms of the company's reported liabilities or statutory surplus.

3.7 Liability Evaluation—The actuary should consider the liability to be reasonable if it is within a range of estimates that could be produced by an appropriate analysis that is, in the actuary's professional judgment, consistent with either ASOP No. 5, *Incurred Health and Disability Claims*, or ASOP No. 42, *Determining Health and Disability Liabilities Other than for Incurred Claims*, as appropriate, and the identified stated basis of the liability presentation. In addition to the methods used, the actuary should consider, as appropriate, relevant past, present, or reasonably foreseeable future conditions that are likely to have a material effect on the liability being established.

A significant element in the selection of actuarial assumptions and methods is consideration of the policy and contract provisions affecting the liabilities. The actuary's judgment in developing actuarial assumptions and methods should take into account the specific characteristics of the policy and contract provisions affecting the liabilities with respect to which the actuary is expressing an opinion.

When the actuary is required to opine that the liabilities make good and sufficient provision, the actuary should include provision for adverse deviation. The provision should result in liabilities that, in the actuary's professional judgment, are sufficient to cover obligations under moderately adverse conditions.

If the actuary makes use of other personnel within the actuary's control to carry out assignments relative to analysis supporting the opinion, the actuary should review their contributions and be satisfied that those contributions are reasonable.

The actuary may develop estimates of the unpaid claims for all or a portion of the liability or make use of another's unpaid claims estimate analysis or opinion for all or a portion of the liability.

3.7.1 Evaluation Based on Actuary's Estimate of Unpaid Claim or Other Liabilities—When developing estimates to evaluate the reasonableness of a liability, the actuary may develop a point estimate, a range of estimates, or both. The actuary should be guided by ASOP No. 5 for the development of unpaid claim estimates. The actuary should be guided by ASOP No. 42 for development of health liabilities other than unpaid claims.

3.7.2 Evaluation Based on the Actuary's Use of Another's Estimates or Opinions—In the course of conducting a liability evaluation, the actuary may make use of another's supporting analyses or opinions. The actuary should understand the intended purpose of the analyses or opinions, and assess whether the analyses or opinions are consistent with the stated purpose of the presentation of the liabilities. The actuary should only make use of another's analyses or opinions when, in the actuary's professional judgment, it is reasonable to do so. In making this determination, the actuary should consider the amount of the liabilities covered by the others' analyses or opinions in comparison to the total liabilities subject to the actuary's opinion, the nature of the business, how reasonably likely deviations may affect the actuary's opinion on the total liabilities subject to the actuary's opinion and the credentials of the other individuals that prepared the analyses or opinions. Where, in the opinion of the actuary, the reviewed analyses or opinions need to be modified or expanded, the actuary should perform such additional analyses as necessary to render an opinion.

If in using the analyses performed by others the actuary reaches conclusions materially different from those in the others' work, the actuary should, when practical, contact the producers of those analyses to discuss the differences. Where material differences exist, the issues underlying the differences should be understood by the actuary. (Note that materiality is measured relative to the actuary's opinion, not relative to the others' analyses.)

3.8 Prior Opinion—If the actuary prepared the most recent prior opinion, or, if the actuary is able to review the prior opining actuary's work, then the actuary should determine whether the current assumptions, procedures, or methods differ from those employed in providing the most recent prior opinion prepared in accordance with this standard. If the current assumptions, procedures or methods differ from those employed in the prior opinion, the actuary should consider whether the changes are likely to have had a material effect on the actuary's liability estimate.

The use of assumptions, procedures, or methods for new liability segments (for example, a new line of business or product) is not a change in assumptions, procedures, or methods within the meaning of this section. Similarly, when the determination of the reasonableness of the liability is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change in assumptions, procedures or methods within the meaning of this section.

3.9 Adverse Deviation—The actuary should consider whether there are significant risks and uncertainties that could result in future paid amounts being materially greater than those provided for in the liabilities. When the actuary's analysis derives separate liability estimates for various segments or groupings, the actuary should consider the combined risks and uncertainties associated with the liabilities that are the subject of the opinion (see section 4.1(h) and 4.2(f) for related disclosure requirements).

3.10 Collectability of Ceded Reinsurance—If the scope of the statement of actuarial opinion includes liabilities net of ceded reinsurance and the amount of ceded reinsurance is material, the actuary should consider the collectability of ceded reinsurance in evaluating net liabilities. The actuary should solicit information from management regarding collectability problems, significant disputes with reinsurers, and practices regarding provisions for uncollectible reinsurance. The actuary's consideration of collectability does not imply an opinion on the financial condition of any reinsurer.

3.11 Statements of Actuarial Opinion—The statement of actuarial opinion should be one of the following types:

a. Unqualified Opinion—When an actuary is preparing an opinion to comply with NAIC Health Annual Statement instructions, the actuary providing an unqualified opinion represents that the reserve amount makes good and sufficient provision for the specified liabilities. In forming an opinion as to whether the actuarial items "make good and sufficient provision for all unpaid claims and other actuarial liabilities," the actuary should be satisfied that the actuarial judgments made give recognition to any relevant factors, including the time periods over which the liabilities will extend. The actuary is expressing an opinion on the reasonableness of the aggregate liabilities. The actuary should be satisfied that the liabilities and related items opined on make reasonable provision to cover obligations under moderately adverse conditions.

In other circumstances, such as under a contractual agreement with a principal, the actuary may provide an unqualified opinion if the liability amounts are reasonable for the intended purpose. In this situation, the actuary should be explicit in the opinion or the supporting actuarial memorandum as to whether a provision for adverse deviation has been included in the determination of the reasonableness of the liability.

b. Adverse Opinion—When an actuary is preparing an opinion to comply with NAIC Health Annual Statement instructions, the actuary should issue an adverse opinion when the liability amount is less than the minimum amount the actuary believes is necessary to provide an unqualified opinion. In other circumstances, the actuary should provide an adverse opinion when the liabilities fall outside a reasonable range for the specified purpose.

c. Qualified Opinion—The actuary should issue a qualified statement of actuarial opinion when, in the actuary's opinion, the liabilities 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 the liabilities for those items. The actuary should determine whether the liability amount makes a reasonable provision for the liabilities associated with the specified liabilities, except for the item or items to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material.

d. Inconclusive Opinion—The actuary's ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary should issue an inconclusive opinion. A statement of an inconclusive opinion should include a description of the reasons that cause the opinion to be inconclusive.

3.12 Adequacy of Assets Supporting Liabilities—This standard does not obligate the actuary to undertake evaluation of the adequacy of the assets supporting the stated liability amount except as may be needed to comply with any applicable, law, regulatory requirement or other ASOP. Guidance on the analysis of cash flows is provided in ASOP No. 7, *Performing Cash Flow Testing for Insurers***,** and Guidance on Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers is provided in ASOP No. 22.

3.13 Documentation—The actuary should consider the intended purpose of the statement of actuarial opinion when documenting work, and should refer to ASOP No. 41, *Actuarial Communications*. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of supporting reports and documentation.

The documentation should provide sufficient detail to allow another qualified actuary to understand and evaluate the methods and analyses of the opining actuary. Specific guidance regarding the content of an actuarial memorandum which documents the analyses supporting a Statement of Actuarial Opinion prepared to comply with NAIC Health Annual Statement instructions is provided in the NAIC Health Annual Statement instructions.

Section 4. Communications and Disclosures

4.1 Actuarial Communication—When issuing a statement of actuarial opinion subject to this standard, the actuary should consider the intended purpose of the statement of actuarial opinion and be guided by ASOP No. 41. In addition, the actuary should provide reports, opinions and memoranda as required by applicable law.

In addition, consistent with the intended purpose, the actuary should disclose the following in the statement of actuarial opinion:

a. the words "statement of actuarial opinion," or alternative words with similar meaning if required by law or regulation governing the opinion, in the title of the written opinion;

b. the intended user(s) of the statement of actuarial opinion;

c. the intended purpose of the statement of actuarial opinion, as described in section 3.2;

d. the liabilities being opined upon, as described in section 3.3;

e. the stated basis of liability presentation, as described in section 3.4. In certain circumstances, referring to specific financial statement liability figures and their specific source (for example, Statutory Annual Statement of Company ABC as filed with the Company's state of Domicile) would satisfy disclosure requirements related to section 3.4;

f. the scope of the analysis underlying the statement of actuarial opinion as described in sections 3.5(c) and 3.5(d) and the review date (see section 3.5(b))if different from the date the opinion is signed;

g. the type of opinion, as described in section 3.11; and

h. whether the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, as described in section 3.9, and the amount of adverse deviation that the actuary judges to be material with respect to the statement of actuarial opinion.

4.2 Additional Disclosures—In certain cases, consistent with the intended purpose, the actuary may need to make the following disclosures in addition to those in section 4.1:

a. The actuary should disclose the nature of changes in assumptions, procedures or methods from those employed in the most recent prior opinion prepared in accordance with this standard, unless the actuary concludes the changes are not likely to have a material effect on the actuary's unpaid claim estimate. This standard does not require the actuary to quantify the impact of such changes. If the actuary cannot review the prior opining actuary's work, then the actuary should disclose that the prior assumptions, procedures and methods are unknown (see section 3.8).

b. If the actuary determines that the liability amount is deficient or unreasonable, the actuary should disclose the minimum amount that the actuary believes is reasonable.

c. If the actuary determines that the liability amount is redundant or excessive, the actuary should disclose the maximum amount that the actuary believes is reasonable.

d. If the actuary issues a qualified opinion, the actuary should disclose in the opinion the item or items to which the qualification relates, the reasons for the qualification, and the amounts for such items, if disclosed by the entity, that are included in the liability. If the amounts for such items are not disclosed by the entity, the actuary should disclose that the liability includes unknown amounts for such items. The actuary should also disclose whether the liability amount makes a reasonable provision for the liabilities associated with the specified liabilities, other than the item or items to which the qualification relates.

e. If the actuary relies on another person or firm for any aspect of the data or analysis supporting the actuary's opinion, the actuary should disclose this reliance. In particular, the actuary should identify the specific types of liabilities that were based upon data or analyses provided by others, and also specify that the data was examined for reasonableness and consistency. The actuary should also identify the individual(s) responsible for the data or analysis.

f. If the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, an explanatory paragraph should be included in the statement of actuarial opinion (see sections 3.6 and 3.9 for guidance on evaluating materiality and adverse deviation). The explanatory paragraph should contain a description of the major factors or particular conditions underlying risks and uncertainties that the actuary believes could result in material adverse deviation.

   The actuary is not required to include in the explanatory paragraph general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

g. If the liabilities being opined upon are net of ceded reinsurance and the amount of ceded reinsurance is material, the actuary should comment on the collectability of that reinsurance. This standard does not require the actuary to quantify the collectability (see section 3.10).

h. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of the required disclosures, to the extent not addressed above.

4.3 Deviation from Standard—If the actuary departs from the guidance set forth in this standard, the actuary should include the following where applicable:

4.3.1 the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);

4.3.2 the disclosure in ASOP No. 41, section 4.3, if the actuary disclaims responsibility for any material assumption or method in any situation not covered under section 4.3.1 above; and

4.3.3 the disclosure in ASOP No. 41, section 4.4, if the actuary otherwise deviated from the guidance of this ASOP.

Appendix

Background and Current Practices

Note: This appendix is provided for informational purposes, but is not part of the standard of practice.

Background

In the early 1980s, the National Association of Insurance Commissioners (NAIC) developed standards for a statement of actuarial opinion as to reserves and related actuarial items that were to be included in the annual statement filed by health service corporations. In response to this requirement, the American Academy of Actuaries promulgated Financial Reporting Recommendation 10, *Statement of Actuarial Opinion for Health Service Corporation Statutory Annual Statements*, setting forth the actuary's professional responsibilities in providing such an opinion.

The form and content of these actuarial opinions, as specified in the instructions to the statutory statements, deal specifically with reserves and related actuarial items. Prior to the development of professional standards, some actuaries began to address other issues in forming their opinions, including asset adequacy analysis, claim settlement expense reserves, and the financial condition of capitated providers under health maintenance organization contracts.

In April of 1997, the ASB adopted ASOP No. 28. The original version of ASOP No. 28 was a revised and reformatted version of Financial Reporting Recommendation (FFR) 10, *Statement of Actuarial Opinion for Health Service Corporation Statutory Annual Statements*. The reformatting was done to conform to the revised uniform format for actuarial standards of practice adopted by the ASB in 1996. FRR 10 offered guidance to actuaries providing statutory statements of actuarial opinion for health service corporations. FRR 10 followed the Instructions to the 1983 NAIC Blank for Hospital, Medical, and Dental Service or Indemnity Corporations and the NAIC Blank for Health Maintenance Organizations. ASOP No. 28, as successor to FRR 10, was based on the current versions of the above two Blanks, and it provided more detailed and comprehensive guidance than that provided in FRR 10. It replaced FRR 10 entirely.

The type of asset adequacy analysis most widely used by actuaries is multi-scenario cash flow testing. To guide actuaries choosing to use this technique, the Actuarial Standards Board (ASB) adopted ASOP No. 7, *Performing Cash Flow Testing for Insurers*, in October 1988. ASOP No. 7 was revised in July 1991 and again in June 2002.

In July 1990, the ASB adopted ASOP No. 14, *When to Do Cash Flow Testing for Life and Health Insurance Companies*, to provide guidance in determining whether or not to do cash flow testing in forming a professional opinion or recommendation. ASOP No. 14 was repealed in September 2001 after a determination that relevant portions were incorporated in the 2001 revisions of ASOP No. 7 and ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers.*

To guide actuaries in the development of incurred health claim liabilities, the Interim Actuarial Standards Board approved an actuarial standard of practice, *Incurred Health Claim Liabilities*, in April 1988, which was subsequently reformatted and adopted by the ASB as ASOP No. 5 in January 1991 and revised in December 2000. Among other things, ASOP No. 5 requires that provision be made for claim settlement expenses.

To guide actuaries in several important areas requiring special consideration for health maintenance organizations (HMOs) and other managed-care health plans in several areas, including establishing actuarial reserves relating to the transfer of risk to providers and the financial condition of capitated providers, the ASB adopted ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*, in July 1990. This ASOP was repealed in April 2007 after a determination that it provided information redundant to other ASOPs; the document outlining its repeal refers the reader to other relevant ASOPs.

To guide actuaries in the development of health and disability liabilities other than liabilities for incurred claims, the ASB adopted ASOP No. 42, *Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims*, in March 2004. These include contract reserves, premium deficiency reserves, provider-related liabilities, claim adjustment expense liabilities, and other liabilities of insurance entities, insured or noninsured risk-assuming entities, managed care entities, health care providers, government-sponsored health benefit plans, or risk contracts.

Current Practices

Health Actuaries are guided by ASOP No. 5, *Incurred Health and Disability Claims*, ASOP No. 7, *Analysis of Life, Health, or Property Casualty Insurer Cash Flows*, ASOP No. 22, *Statement of Opinion based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*, and ASOP No. 42, *Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims* . Additional guidance is provided in ASOP No. 23, *Data Quality* and ASOP No. 41, *Actuarial Communications.*

Numerous educational papers are in the public domain that are relevant to the topic of reserves and liabilities and their evaluation, including those published by the Society of Actuaries. While these may provide useful educational guidance to practicing actuaries, these are not actuarial standards and are not binding.