



**ACTUARIAL STANDARDS BOARD**

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**Actuarial Standard  
of Practice  
No. 28**

**Revised Edition**

**Statements of Actuarial Opinion Regarding  
Health Insurance Assets and Liabilities**

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

**Adopted by the  
Actuarial Standards Board  
June 2021**

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June 2021

**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 Assets and Liabilities

**FROM:** Actuarial Standards Board (ASB)

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

This document contains the revision of ASOP No. 28, now titled *Statements of Actuarial Opinion Regarding Health Insurance Assets and Liabilities*.

**History of the Standard**

In April 1997, the ASB 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*.

In June 2011, this standard was renamed *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets* and revised in consideration of the development of the Health Annual Financial Statement Blank and the revised health actuarial opinion instructions approved by the National Association of Insurance Commissioners (NAIC) in June 2009. The scope was also broadened to encompass all statements of actuarial opinion regarding health insurance liabilities and assets of health insurance or reinsurance companies and other health insurance financing systems, such as health benefit plans provided by self-insured or government plan sponsors. Additionally, in December 2012, the language in section 1.2 of this standard was updated.

Since the last update of this standard, changes have been made to ASOP No. 5, *Incurred Health and Disability Claims*, and ASOP No. 42, *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*, due in part to the changes imposed by the Affordable Care Act. Some assets and liabilities that are included in the scope of the actuarial opinion have changed, and others have gained prominence. Therefore, this revision of ASOP No. 28 reflects these changes in actuarial practice.

This revision to the standard also addresses concerns reported by regulatory actuaries relating to the need for improved consistency of the information provided in the actuarial memorandum supporting an actuarial opinion.

While the standard currently applies to statements of actuarial opinions relating to assets and liabilities other than the NAIC statement of actuarial opinion, the task force recognized the need to broaden the guidance to more fully reflect the needs of actuaries preparing such statements of actuarial opinions. This revision clarifies guidance relating to the applicability of this standard

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for actuaries issuing non-statutory statements of actuarial opinions or statutory statements of actuarial opinions for health entities not subject to the NAIC rules.

### Exposure Draft

The exposure draft was issued in June 2020 with a comment deadline of November 13, 2020. Three comment letters were received and considered in making changes that were reflected in the final ASOP.

### Notable Changes from Exposure Draft

Notable changes made to the exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. The guidance in section 1.2, Scope, was clarified.
2. The definitions for section 2.9, Health Insurance Asset (Asset), and section 2.10, Health Insurance Liability (Liability), were clarified.
3. The language in section 3.3, Basis of Assets and Liabilities; section 3.6, Asset and Liability Evaluation; and section 4.1, Required Disclosures in an Actuarial Report, was revised to improve clarity.
4. A disclosure was added in section 4.1(h) to clarify disclosure requirements for section 3.6.
5. The disclosure requirements in section 4.1, Required Disclosures in an Actuarial Report, were clarified for situations where the actuarial memorandum is issued separately from the statement of actuarial opinion.

### Notable Changes from the Existing ASOP

A cumulative summary of the notable changes from the existing ASOP is summarized below. Notable changes do not include additional changes made to improve readability, clarity, or consistency.

1. The title was modified to reflect the increasing importance of actuarial assets to health insurance entities and to be consistent with the current title of ASOP No. 42.
2. Sections 1.1, Purpose, and 1.2, Scope, were clarified to apply to actuaries issuing or reviewing any statement of actuarial opinion and associated actuarial reports or memoranda including, but not limited to, opinions prepared in accordance with the NAIC's annual statement requirements.

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3. Section 3.2, Assets and Liabilities Being Opined Upon, was clarified to state that the identification of assets and liabilities being opined upon includes those items with a value of zero.
4. Section 3.3, Basis of Assets and Liabilities, was expanded to address information that should be included in the description of the basis of the assets and liabilities.
5. Section 3.6, Asset and Liability Evaluation, was expanded to address the use of an explicit provision for adverse deviation as well as implicit conservatism in assumptions.
6. Section 3.9, Collectability of Actuarial Assets and Offsets to Liabilities, was expanded to address that collectability guidance currently applicable only to the collectability of ceded reinsurance applies to all actuarial assets and offsets to actuarial liabilities.
7. Section 3.11, Statements of Actuarial Opinion, was expanded to address the application of the documentation requirements for different types of opinions, when applied to statements of actuarial opinions other than statutory NAIC opinions and when the opinion is intended to meet the “good and sufficient” standard.
8. Sections 3.13, Reliance on Data, Assumptions, Methods, Supporting Analysis, and Information Supplied by Others, and 3.14, Evaluation Based on Analyses or Opinions of Another Actuary or Expert, were added to provide guidance regarding reliance on others.
9. Guidance was added to section 4.1, Required Disclosures in an Actuarial Report, related to the information needed to be included in a written statement of actuarial opinion involving assets and liabilities when it is provided as a separate document from the actuarial report or memorandum.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure draft.

The ASB voted in June 2021 to adopt this standard.

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*The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.*

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**STATEMENTS OF ACTUARIAL OPINION  
REGARDING HEALTH INSURANCE ASSETS AND LIABILITIES**

**STANDARD OF PRACTICE**

**Section 1. Purpose, Scope, Cross References, and Effective Date**

- 1.1 **Purpose**—This actuarial standard of practice (ASOP) provides guidance to actuaries when performing actuarial services with respect to issuing or reviewing a statement of actuarial opinion (sometimes referred to as “actuarial opinion” or “opinion”) regarding **health insurance assets and liabilities**.
- 1.2 **Scope**—This standard applies to actuaries when performing actuarial services with respect to issuing or reviewing statements of actuarial opinion and any associated **actuarial memorandum** with respect to **health insurance assets and liabilities** of insurance companies, reinsurance companies, or other health insurance financing systems that provide similar coverages (such as **health benefit plans** provided by self-insured or government plan sponsors). The standard applies to, but is not limited to, actuaries issuing or reviewing actuarial opinions prepared in accordance with the National Association of Insurance Commissioners’ (NAIC’s) annual statement requirements.

For actuaries issuing or reviewing statements of actuarial opinion that include both **health insurance assets and liabilities**, and **non-health insurance assets and liabilities**, other standards may apply in addition to this standard (such as ASOP No 22, *Statements of Opinion Based on Asset Adequacy Analysis for Life and Health Insurers*) or instead of this standard (such as ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*).

If the actuary is performing actuarial services that involve reviewing an opinion, the actuary should use the guidance in this standard to the extent practicable.

The standard does not apply to actuaries issuing or reviewing statements of actuarial opinion that are subject to the following:

- ASOP No. 3, *Continuing Care Retirement Communities*;
- ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*;
- ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*;

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- ASOP No. 36;
- ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*; or
- ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*.

If the actuary determines that the guidance in this ASOP conflicts with a cross-practice ASOP (applies to all practice areas), this ASOP governs.

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. If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.

- 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 originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.
- 1.4 Effective Date—This standard is effective for work performed involving statements of actuarial opinion regarding **health insurance assets** and **liabilities** issued on or after July 1, 2022.

### Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP.

- 2.1 Actuarial Memorandum—A written actuarial report (as defined in ASOP No. 41, *Actuarial Communications*) that provides information regarding the analyses completed in support of statements of actuarial opinion regarding **health insurance assets** and **liabilities**.
- 2.2 Claim—A demand for payment under the coverage provided by a plan or contract.
- 2.3 Collectability—The likelihood of receiving the amount of money owed or the **asset** accrued.
- 2.4 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

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the **valuation date**. A **contract reserve** may or may not include a provision for the unearned premium reserves. A **contract reserve** may also be referred to as an active life reserve or policy reserve.

- 2.5 Counterparty—Another entity involved in a financial transaction.
- 2.6 Counterparty Risk—The risk that any **counterparty** does not fulfill its contractual obligations.
- 2.7 Experience Period—The period of time to which historical data used for actuarial analysis pertains.
- 2.8 Health Benefit Plan—A contract, such as an insurance policy, or other financial arrangement providing medical, prescription drug, dental, vision, disability income, long-term care, or other health-related benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-bearing entity.
- 2.9 Health Insurance Asset (Asset)—An asset included in the scope of the statement of actuarial opinion related to **health benefit plans**. Examples may include risk adjustment transfer payment receivables, pharmacy rebate receivables, provider settlement receivables, and Medicare Part D settlement receivables.
- 2.10 Health Insurance Liability (Liability)—A **liability** included in the scope of the statement of actuarial opinion related to **health benefit plans**. Examples may include unpaid **claims liabilities**, unpaid loss adjustment expenses, medical loss ratio rebates, **liabilities** for settlements of provider contracts, **contract reserves**, experience refund **liabilities**, premium deficiency reserves, premium stabilization reserves, and **liabilities** for reinsurance payable.
- 2.11 Moderately Adverse Conditions—Conditions that include one or more unfavorable, but not extreme, events that have a reasonable probability of occurring.
- 2.12 Provision for Adverse Deviation—An explicit amount to make some provision for uncertainty in an **asset** or **liability**. This sometimes is called a provision for uncertainty or a margin for uncertainty.
- 2.13 Valuation Date—The date as of which the **assets** or **liabilities** are estimated for the actuarial opinion provided.

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### Section 3. Analysis of Issues and Recommended Practices

- 3.1 Intended Purpose and Users of the Statement of Actuarial Opinion—The actuary should identify the intended purpose and intended users of the statement of actuarial opinion and any associated **actuarial memorandum**. For example, the intended purpose may be to satisfy the requirements for such an opinion and memorandum under the NAIC Health Annual Statement Instructions, and the intended users may be the company and its regulators. Other examples may be when an actuary prepares a statement of actuarial opinion in support of an application for a certificate of authority (the intended purpose) to a regulator (the intended user) or when an actuary prepares a statement of actuarial opinion estimating unpaid **claims liabilities** (the intended purpose) for a self-funded employer (the intended user).
- 3.2 Assets and Liabilities Being Opined Upon—The actuary should identify applicable balance sheet items within the scope of the opinion (i.e., the **health insurance assets** and **health insurance liabilities**), including items that may have a value of zero. For example, premium deficiency reserves or risk adjustment estimates may have a value of zero. The actuary should consider identifying balance sheet items excluded from the scope of the opinion along with the justification for the exclusion. The actuary should identify the following regarding the **assets** and **liabilities** for which the opinion is being prepared as follows:
- a. the **asset** and **liability** amount(s); and
  - b. the **valuation date**.
- 3.3 Basis of Assets and Liabilities—The actuary should identify and describe the basis of the **assets** and **liabilities**. The basis may be dependent upon regulatory or accounting requirements. The actuary should include the following items in the description of the basis, if applicable:
- a. the data, assumptions, methods, and procedures used to determine the **assets** and **liabilities**;
  - b. the accounting standards applicable for the **assets** and **liabilities** (for example, US SAP, US GAAP, IFRS);
  - c. whether the amounts are gross or net of specified recoverables, such as ceded reinsurance or salvage and subrogation, and whether the amounts follow any requirements for the treatment of these amounts specified by a particular accounting method;
  - d. whether there is a **provision for adverse deviation**, and, if so, the amount of the **provision for adverse deviation**; and

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- e. whether there is some level of implicit conservatism included in the items within the scope of the actuarial opinion.

In the description of the basis of the **assets** and **liabilities**, the actuary should include any additional items that are needed to describe the amounts sufficiently for the actuary's evaluation of the **assets** and **liabilities**.

To the extent the actuary is not able to identify the basis of the **assets** and **liabilities**, the actuary should request this information. If unable to obtain this information, the actuary should document what the actuary assumed to be the intended basis of the **assets** and **liabilities** and provide justification for the opinion issued in accordance with section 3.11.

- 3.4 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 dates relevant to the actuary's analysis:
  - i. **valuation date**;
  - ii. **experience period(s)** for any data used, including the runout period;
  - iii. the date through which material information known to the actuary is included in forming the opinion, if it differs from the date of the opinion; and
  - iv. the date of the opinion.
- b. the **assets** and **liabilities** included in the scope of the actuary's opinion. This should include any major components of the **assets** and **liabilities**. For example, the components of unpaid **claims liabilities** may include amounts determined based on lag-based methodologies, capitation amounts, and offsets for reinsurance;
- c. for **asset** and **liability** items disclosed in the statement of actuarial opinion, whether the actuary's opinion applies to those items in the aggregate or individually;
- d. when the opinion is limited to only a portion of the **assets** or **liabilities**, the exposure to be covered by the **assets** or **liabilities** (for example, type of coverage, line of business, year, state); and

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- e. any other items that, in the actuary’s professional judgment, are needed to sufficiently describe the scope of the actuary’s analysis.
- 3.5 Materiality—The actuary should evaluate materiality based on the actuary’s professional judgment and the intended purpose for which the actuary is performing actuarial services related to a statement of actuarial opinion and any associated **actuarial memorandum**.

The actuary should document the basis used to determine materiality.

When evaluating materiality, the actuary should understand which financial values are important to the intended users of the statement of actuarial opinion and the associated **actuarial memorandum** and how those financial values are likely to be affected by changes in the **assets** and **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.

- 3.6 Asset and Liability Evaluation—The actuary should evaluate the **assets** and **liabilities** within the scope of the opinion for reasonableness at a level of aggregation consistent with the purpose of the opinion and consistent with the basis of the **assets** and **liabilities**.

The actuary should consider the amount being evaluated 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 applicable guidance including, but not limited to, ASOP No. 5, *Incurred Health and Disability Claims*, and ASOP No. 42, *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*. In addition to the methods used, the actuary should take into account, as appropriate, relevant past, present, or reasonably foreseeable future conditions that are likely to have a material effect on the amounts being established.

If the actuary determines that the **asset** or **liability** is outside a reasonable range, considering the purpose of the opinion, such as any “good and sufficient” requirements, the actuary should determine what the actuary believes is a reasonable range or amount.

When evaluating **assets** and **liabilities** for reasonableness, the actuary should take into account the specific characteristics of the policy and contract provisions affecting the **assets** and **liabilities**.

The actuary should determine whether a **provision for adverse deviation** is appropriate to meet the intended purpose of the opinion. The actuary should refer to ASOP Nos. 5 and 42 for guidance as well as any other applicable ASOP covering **assets** and **liabilities**. Examples of **assets** and **liabilities** for which a **provision for adverse deviation** might be appropriate include an explicit offset to a risk adjustment receivable **asset**, or an explicit

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margin on an unpaid **claims liability**. The actuary should identify the amount and document the justification for any **provision for adverse deviation**.

The actuary should evaluate and document the appropriateness of the aggregate level of conservatism, including any **provision for adverse deviation** and conservatism implicit in the assumptions used to estimate the **assets and liabilities** within the scope of the actuarial opinion. For example, in one situation, the actuary might state that aggregate conservatism of a certain percentage is appropriate for the intended purpose. In another situation, the actuary might state that it is appropriate that all **assets and liabilities** are developed without conservatism.

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 assumes responsibility for compliance of those assignments with this ASOP. All work performed in support of the opinion should be documented, even if it was not performed by the actuary.

The actuary should document the methods, assumptions, and procedures used in the analysis upon which the opinion is based. When complex calculations or concepts are involved, the actuary should include technical explanations and exhibits in the documentation. Examples of complex calculations may include the determination of unpaid **claims liability**, premium deficiency reserves, sensitivity tests, and follow up studies.

The actuary should also document the sources of the data used and how the reasonability of the data was determined, including support for any reconciliation with amounts reported in the financial statement. When determining the reasonability of the data, the actuary should comply with ASOP No. 23, *Data Quality*.

When the opinion is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators regarding the form and content of supporting reports and documentation.

- 3.7 **Prior Opinion**—If the actuary prepared the most recent prior opinion, or, if the actuary is able to review the prior 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 evaluate whether the changes are likely to have resulted in an **asset** or **liability** that is materially different and should document the changes appropriately.

The use of assumptions, procedures, or methods for new **liability** segments (for example, a new line of business or product) or new **asset** amounts is not considered a change in assumptions, procedures, or methods within the meaning of this section. Similarly, when the determination of the reasonableness of the **asset** or **liability** is based on the periodic

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updating of experience data, factors, or weights, such periodic updating is not considered a change in assumptions, procedures, or methods within the meaning of this section. However, the actuary should evaluate whether such periodic updating is appropriate for the current opinion and refer to ASOP Nos. 5, 42, and any other applicable ASOPs for guidance.

The actuary should document the 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 **asset** or **liability**. This standard does not require the actuary to quantify the impact of such changes. If the actuary cannot review the prior actuary's work, then the actuary should document that the prior assumptions, procedures, and methods are unknown.

- 3.8 Significant Risks and Uncertainties—The actuary should determine whether there are significant risks and uncertainties that could result in material adverse deviations from the **assets** or **liabilities**.

If the actuary determines that there are significant risks and uncertainties that could result in material adverse deviation, the actuary should quantify, if practicable, and document such risks and uncertainties, including a description of the major factors or particular conditions underlying the risks and uncertainties.

The actuary is not required to include broad statements about risks and uncertainties, such as those due to economic changes, judicial decisions, political or social forces, nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

- 3.9 Collectability of Actuarial Assets and Offsets to Liabilities—If the scope of the statement of actuarial opinion includes actuarial **assets**, such as risk adjustment amounts receivable, or offsets to **liabilities**, such as ceded reinsurance, the actuary should take into account **collectability** in evaluating the reasonableness of **assets** and **liabilities**.

The actuary should use professional judgment when evaluating **collectability** and may consider the following:

- a. materiality of the **asset** or the offset to a **liability**;
- b. the financial condition of **counterparties**; and
- c. other readily available information.

The actuary should consider soliciting information from management or other appropriate parties regarding **collectability**. Examples of information that may be requested include, but are not limited to, issues relating to **counterparty risk**, **collectability** problems,

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disputes with reinsurers or other **counterparties**, and company practices regarding provisions for uncollectible receivable amounts.

The actuary should document concerns regarding the **collectability** of those **assets** or offsets to **liabilities**. This standard does not require the actuary to quantify the **collectability**. The actuary's consideration of **collectability** does not necessarily imply an opinion on the financial condition of any **counterparty**.

- 3.10 Follow-up Studies—When an actuary conducts follow-up studies that involve performing tests of reasonableness of **assets** or **liabilities** determined for prior periods, the actuary should refer to ASOP Nos. 5 and 42. If appropriate, the actuary may use the results of such follow up studies to form an opinion regarding the appropriateness of the **assets** or **liabilities** included in the scope of opinion for the current period. The actuary should document the results of any follow-up studies used in the development of the actuarial **assets** and **liabilities** included in the opinion.
- 3.11 Statements of Actuarial Opinion—If the actuary determines that the **assets** and **liabilities** are reasonable for the intended purpose, the actuary may provide an opinion without any limitations, reservations, or qualifications (sometimes referred to as an “unqualified opinion”).

If the actuary determines that the **assets** or **liabilities** are not reasonable for the intended purpose or cannot be evaluated for reasonableness, the actuary should identify the opinion as one of the following:

- a. When the **assets** or **liabilities** fall outside a reasonable range for the intended purpose, the actuary should issue an unfavorable opinion (sometimes referred to as an “adverse opinion”). The actuary should document the reasons for issuing an unfavorable opinion; or
- b. If the actuary cannot evaluate the reasonableness of certain **assets** or **liabilities**, the actuary should issue a limited opinion (sometimes referred to as a “qualified opinion”). The actuary should document the following:
  - i. the **assets** or **liabilities** to which the limitations relate;
  - ii. a description of the limitations of the opinion;
  - iii. if provided by the entity, the amounts of the **assets** or **liabilities** to which the limitations relate. If the amounts for such items are not provided by the entity, the actuary should document that the **assets** or **liabilities** include unknown amounts for such items; and

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- iv. whether the total amount makes a reasonable provision for the specified items other than the items to which the limitations relate.

The actuary is not required to document the limitation if the actuary reasonably believes that the items in question are not likely to be material; or

- c. If the actuary is unable to reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary should document the inability to reach a definitive opinion (sometimes referred to as an “inconclusive opinion”), including a description of the reasons that cause the opinion to be inconclusive.

When the actuary is performing services related to an actuarial opinion to comply with NAIC annual statement instructions, the actuary should follow the guidance in the annual statement instructions, including but not limited to the guidance regarding any prescribed language. In order to issue such actuarial opinion that uses the language “good and sufficient,” the actuary should determine that the **assets** and **liabilities** are sufficient to cover obligations under **moderately adverse conditions** and be satisfied that the actuarial judgments made give recognition to any relevant factors, including the time periods over which the **assets** and **liabilities** will extend.

- 3.12 Adequacy of Assets Supporting Liabilities—The actuary should determine whether the adequacy of the **assets** supporting the stated **liabilities** needs to be evaluated. However, 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. For guidance on the analysis of cash flows, the actuary should refer to ASOP No. 7, *Analysis of Life, Health or Property/Casualty Insurer Cash Flows*. For guidance on statements of opinion based on **asset** adequacy analysis, the actuary should refer to ASOP No. 22.
- 3.13 Reliance on Data, Assumptions, Methods, Supporting Analysis, and Information Supplied by Others—The actuary may rely on data, assumptions, methods, supporting analysis, and information supplied by others. When practicable, the actuary should review such items for reasonableness and consistency. For further guidance, the actuary should refer to ASOP Nos. 23 and 41. The actuary should document the extent of any such reliance.
- 3.14 Evaluation Based on Analyses or Opinions of Another Actuary or Expert—When relying on the analyses or opinions of others to evaluate the reasonableness of the **assets** or **liabilities**, as described in section 3.6, the actuary should take into account the following:
  - a. consistency of the analyses or opinions with the stated purpose of the presentation of the **assets** or **liabilities** and with any likely expectations or requirements of subsequent reviewers (for example a regulator or auditor);

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- b. the appropriateness and reasonableness of the data, methodology, and assumptions underlying the analyses or opinions;
  - c. any items or factors not included in the analyses or opinions that in the actuary's judgement may need to be considered;
  - d. the nature of the business, such as types of lives covered, what is covered, and potential external influences;
  - e. the inherent volatility of the **asset** or **liability**;
  - f. the amount of the **assets** or **liabilities** covered by the other actuary or expert's analyses or opinions in comparison to the total **assets** or **liabilities** within the scope of the actuary's opinion, or other relevant amounts (for example surplus level) that might be affected by a change in the **assets** or **liabilities**;
  - g. the way in which reasonably likely deviations may affect the total **assets** and **liabilities** within the scope of the actuary's opinion; and
  - h. the intended purpose of the analyses or opinions of others.
- 3.15 Documentation—In addition to the documentation requirements discussed in section 3.1-3.14, the actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. When preparing documentation, the actuary should prepare documentation in a form such that another qualified actuary in the same practice area could assess the reasonableness of the actuary's work. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

### Section 4. Communications and Disclosures

- 4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, including a statement of actuarial opinion and any associated **actuarial memorandum**, the actuary should refer to ASOP Nos. 5, 23, 41, and 42. In addition, the actuary should disclose the following in such actuarial report, as applicable:
- a. the intended purpose and intended users of the statement of actuarial opinion or the **actuarial memorandum** supporting such actuarial opinion (see section 3.1);
  - b. the **assets** and **liabilities** being opined upon and related information (see section 3.2);

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- c. the basis of the amounts presented (see section 3.3);
- d. the methods, assumptions, and procedures used in the analysis (see sections 3.3 and 3.6), including any technical explanations and exhibits of complex calculations or concepts (see section 3.6);
- e. the scope of the analysis underlying the statement of actuarial opinion and related information (see section 3.4);
- f. basis used to determine materiality (see section 3.5);
- g. any ranges used to evaluate the reasonableness of the **assets** and **liabilities** (see section 3.6);
- h. if the actuary determines that an **asset** or **liability** is outside a reasonable range, the range or amount the actuary believes is reasonable (see section 3.6);
- i. any **provision for adverse deviation** (see section 3.6);
- j. the appropriateness of the aggregate level of conservatism (see section 3.6);
- k. the sources of the data used, and how the reasonability of the data was determined, including support for any reconciliation with amounts reported in the financial statement (see section 3.6);
- l. changes in methods, assumptions, and procedures from those in the most recent prior opinion (see section 3.7);
- m. a description of any significant risks and uncertainties that could result in material adverse deviation, including the major factors or particular conditions underlying the risks and uncertainties (see section 3.8);
- n. any concerns regarding the **collectability** of actuarial **assets** or offsets to **liabilities** (see section 3.9);
- o. results of follow-up studies (see section 3.10);
- p. the rationale for the opinion including any limitations, reservations, or qualifications, or, if applicable, the justification for an adverse opinion or inability to render an opinion (see section 3.11);
- q. whether the adequacy of the **assets** supporting the stated **liabilities** needs to be evaluated (see section 3.12); and

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- r. extent of reliance on work performed or information provided by other parties (see sections 3.13 and 3.14).

The actuary should include the disclosures above for all actuarial **assets** and **liabilities** within the scope of the opinion, even if these items are listed as zero, unless certain items are zero because they are not applicable to the **health benefit plan** issuer. For nonapplicable items, the actuary should provide an explanation of why such items are not applicable.

When the statement of actuarial opinion is issued separately from the supporting **actuarial memorandum**, the actuary should ensure that all applicable disclosures are included in either the statement of actuarial opinion or the **actuarial memorandum**.

When the statement is provided to meet regulatory requirements such as the NAIC Health Annual Statement, additional disclosures may be required to be included in the statement of actuarial opinion and any associated **actuarial memorandum**.

### 4.2 Additional Disclosures in an Actuarial Report—The actuary also should include the following, as applicable, in an actuarial report, including a statement of actuarial opinion and any associated **actuarial memorandum**:

- a. the disclosure in ASOP No. 41, if any material assumption or method was prescribed by applicable law;
- b. the disclosure in ASOP No. 41, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary;
- c. the disclosure in section 4.1(p) regarding any limitations, reservations, qualifications of the opinion, the justification for an adverse opinion, or the inability to render an opinion, if the actuary disclaims responsibility for any material assumptions, methods, or model input; and
- d. the disclosure in ASOP No. 41, if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

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### **Appendix 1**

#### **Background and Current Practices**

*Note:* This appendix is provided for informational purposes and 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 on 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 1997, the ASB (Actuarial Standards Board) adopted ASOP No. 28. The original version of ASOP No. 28 was a revised and reformatted version of Financial Reporting Recommendation (FRR) 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, which replaced FRR 10 entirely, 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.

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 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 to do cash flow testing in forming a professional opinion or recommendation. ASOP No. 14 was repealed in September 2001 after the ASB determined 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*.

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To guide actuaries in the development of incurred health claim liabilities, the Interim Actuarial Standards Board approved an actuarial standard of practice, then titled *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.

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 the ASB determined that it provided information redundant with 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, then titled *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. In March 2018, the ASB adopted a revision of ASOP No. 42, now titled *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*, with an expanded scope including actuarial assets and liabilities.

### Current Practices

When issuing or reviewing statements of actuarial opinion related to health insurance assets and liabilities, actuaries often refer to other publicly available sources of information. The NAIC publishes Health Annual Statement instructions, which are updated annually and provide specific guidance to the actuary. Additionally, numerous educational papers that are relevant to the topic of reserves, assets, and liabilities and their evaluation, including those published by the Society of Actuaries, are in the public domain.

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**Appendix 2**

**Comments on the Exposure Draft and Responses**

The exposure draft of the *Statements of Actuarial Opinion Regarding Health Insurance Assets and Liabilities* ASOP was issued in June 2020 with a comment deadline of November 13, 2020. Three comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 28 Task Force carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 28 Task Force and the ASB Health Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 28 Task Force, the ASB Health Committee, and the ASB. Also, the section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the final ASOP.

| <b>GENERAL COMMENTS</b> |  |
|-------------------------|--|
| Comments                | One commentator recommended adding specific disclosures to section 4 that a reviewing actuary would be required to include in communicating the results of their review.   |
| Response                | The reviewers note that section 1.2 indicates that this standard is applicable to the reviewing actuary to the extent practicable. Therefore, the reviewers believe that the existing requirements included in section 4 apply to reviewing actuaries to the extent practicable. The reviewers also believe there is no need to develop additional disclosure requirements specific to reviewing actuaries and made no change in response to this comment. |
| Comment                 | One commentator said the focus of section 3 is entirely on actuaries preparing statements of opinion and does not refer to the reviewing actuary.  |
| Response                | The reviewers note that section 1.2 indicates that the reviewing actuary should use the guidance in this standard to the extent practicable. Therefore, the reviewers removed all reference to the reviewing actuary in section 3 to eliminate confusion.  |

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|  |   |
|--|---|
| Comment  | One commentator suggested that the ASOP provide clearer guidance to the actuary when considering accounting standards in the evaluation of assets and liabilities and on how to address deviations from the standard when there is a conflict with accounting standards.  |
| Response   | The reviewers disagree that clearer guidance is necessary, and note that ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , and ASOP No. 41, <i>Actuarial Communications</i> , address situations involving deviation from standards. Therefore, the reviewers made no change in response to this comment.  |
| <b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>                                       |   |
| <b>Section 1.2, Scope</b>  |   |
| Comment  | One commentator suggested replacing “governs” with “takes precedence” in this section.  |
| Response   | The reviewers note the language is consistent with ASOPs currently being issued and made no change in response to this comment.   |
| <b>SECTION 2. DEFINITIONS</b>  |   |
| <b>Section 2.9, Health Insurance Asset (Asset), and Section 2.10, Health Insurance Liability (Liability)</b> |   |
| Comment  | One commentator suggested that the use of the term “actuarial consideration” in sections 2.9 and 2.10 is vague and should be defined in another ASOP such as ASOP No. 1. In addition, the commentator suggested that the use of examples is not necessary and suggested they be removed.  |
| Response   | The reviewers agree that the term “actuarial consideration” is unnecessary and modified the definitions accordingly. The reviewers disagree that the examples should be removed and added “may” before “include” to remove the definitive nature of the list.   |
| <b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>   |   |
| <b>Section 3.3., Basis of Assets and Liabilities</b>   |   |
| Comment  | One commentator suggested a definition of “basis” be included at the beginning of the section.  |
| Response   | The reviewers agree that the term “basis” should be clarified and revised the language in section 3.3 to provide clearer guidance. The reviewers note that the list of items in section 3.3(a) through 3.3(e) helps clarify what is included in a basis.  |
| Comment  | One commentator suggested changing “document what the actuary assumed” to “identify what the actuary assumed.”  |
| Response   | The reviewers disagree and made no change in response to this comment.  |
| Comment  | One commentator suggested that section 3.3(e) should begin with “whether there is...”.  |
| Response   | The reviewers agree and modified the language accordingly.  |
| Comment  | One commentator believes that the term “best estimate” implies statutory conservatism (i.e., good and sufficient under moderately adverse conditions) based on interpretation of Statement of Statutory Accounting Principles No. 55.   |
| Response   | The reviewers agree that the term “best estimate” is ambiguous and removed the sentence. The reviewers made additional changes to this section to clarify guidance.   |
| <b>Section 3.4, Scope of the Analysis Underlying the Statement of Actuarial Opinion</b>                      |   |
| Comment  | One commentator noted that the use of the term “individual” in section 3.4(b) could result in the actuary being required to include any item that is theoretically possible for the statement line, even if a certain reserve item is not applicable to the company or may require the actuary to identify every element of a reserve category (for example, every element in an unpaid claim liability calculation). |
| Response   | The reviewers agree that use of the word “individual” could be confusing and modified the language in section 3.4(b) in response to this comment.   |

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| <b>Section 3.5, Materiality</b>                      |  |
|--|--|
| Comment  | One commentator suggested that section 3.5 should also address materiality in terms of the level of conservatism in the assets and liabilities, whether implicit or explicit. The importance of a particular balance sheet item, and especially the potential misstatement of such an item, should be considered in terms of whether it is large enough to impair the required conservatism. |
| Response   | The reviewers disagree and made no change in response to this comment. The reviewers note that the existing general guidance in section 3.6 and the last paragraph of section 3.11 address the evaluation of conservatism.   |
| <b>Section 3.6, Asset and Liability Evaluation</b>   |  |
| Comment  | One commentator suggested that the current wording—in particular, the word “evaluate”—requires some specific calculation of the aggregate level of conservatism in each assumption.  |
| Response   | The reviewers did not intend to require a specific calculation and deleted the last sentence of the first paragraph to avoid ambiguity.  |
| Comment  | One commentator suggested that the reference to “best estimate basis” should be removed from the last sentence in the sixth paragraph of section 3.6 and end with “...are developed without conservatism.”   |
| Response   | The reviewers agree and made the change.   |
| Comment  | One commentator felt the ASOP should not pre-suppose that all of the items listed in this section always stem from “complex calculations.”   |
| Response   | The reviewers agree and modified the language in response to this comment.   |
| Comment  | One commentator felt the requirement to “document” is unnecessary to include in section 3.6 since it is explicitly included in section 4.1(i).   |
| Response   | The reviewers believe that a documentation requirement in section 3 is appropriate and made no change in response to this comment.   |
| <b>Section 3.11, Statements of Actuarial Opinion</b> |  |
| Comment  | One commentator suggested that changing the nomenclature of the types of opinions was unnecessary.   |
| Response   | The reviewers note that the standard applies to statements other than NAIC annual statements. Therefore, the reviewers added clarifying language in section 1.2, Scope, but made no change to the language in section 3.11.  |
| Comment  | One commentator felt that the ASOP was not clear regarding whether excessive conservatism would affect the type of opinion issued and suggested the language be clarified.   |
| Response   | The reviewers disagree and made no change in response to this comment. The reviewers believe “outside a reasonable range” addresses the commentator’s concern.   |
| Comment  | One commentator suggested that the language in section 3.11 that refers to the “good and sufficient” standard should refer only to liabilities and not to assets because the prescribed wording of an NAIC blank refers to the “good and sufficient standard” with respect to “unpaid claims and other liabilities.”   |
| Response   | The reviewers disagree and made no change in response to this comment.   |

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| <b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>                |   |
|---|---|
| <b>Section 4.1, Required Disclosures in an Actuarial Report</b> |   |
| Comment   | Two commentators suggested clarifying which disclosures should be included in the opinion and accompanying actuarial memorandum.                            |
| Response  | The reviewers revised the language in response to these comments and removed references to individual disclosures.  |
| Comment   | One commentator noted the disclosures in section 4.1(e) are more appropriate to include in the actuarial memorandum.  |
| Response  | The reviewers revised language in section 4.1 to allow more flexibility related to what is included in the actuarial memorandum versus in the opinion.      |
| Comment   | One commentator noted that a range is not required for every asset or liability and suggested that section 4.1(g) be revised to clarify the requirement.    |
| Response  | The reviewers disagree that section 4.1(g) requires the actuary to develop a range and made no change in response to this comment.                          |
| Comment   | One commentator suggested that sections 4.1(d) and 4.1(j) could be merged as both require a description of the “methods, assumptions, and procedures used.” |
| Response  | The reviewers agree and combined sections 4.1(d) and (j) in response to this comment.   |