



## State of New Jersey

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### BULLETIN NO. 11-30

**TO: ALL FRATERNAL BENEFIT SOCIETIES DOMICILED IN NEW JERSEY**

**FROM: THOMAS B. CONSIDINE, COMMISSIONER**

**RE: ASSET ADEQUACY ANALYSIS AND FRATERNAL EXPENSES**

In accordance with N.J.S.A. 17B:19-10, as implemented by N.J.A.C. 11:1-21A, fraternal benefit societies doing business in this State (as well as all life/health insurers) are required to file an opinion from a qualified actuary regarding the adequacy of reserves to support the benefits and expenses under the policies and contracts issued by such entities in light of the assets held.

N.J.A.C. 11:1-21A.5(f)1vii(7) includes commissions and expenses as assumptions in reserve testing that should be documented in the memorandum.

N.J.A.C. 11:1-21A.5(c) states that if the Commissioner of Banking and Insurance ("Commissioner") finds that the analysis described in the actuarial memorandum does not meet the standards of the Actuarial Standards Board or the standards and requirements of N.J.A.C. 11:1-21A, the Commissioner may designate a qualified actuary to review the opinion and prepare such supporting memorandum as is required for review.

The Department of Banking and Insurance ("Department") has found that questions exist regarding whether domestic fraternal expenses should be included in conducting the asset adequacy analysis required by N.J.A.C. 11:1-21A. Actuarial Standard of Practice ("ASOP") No. 22 defines the term "Asset Adequacy Analysis" to mean "an analysis of the adequacy of reserves **and other liabilities** being tested, in light of the assets supporting such reserves **and other liabilities**, as specified in the opinion" (emphasis added). The manner by which the appointed actuary interprets the term "other liabilities" will often drive the actuary's decision to either include or exclude fraternal expenses from the asset adequacy analysis. The Department has observed the following interpretations:

1. Some actuaries consider "other liabilities" to mean that the assets tested must be sufficient to cover all expenses, including all fraternal expenses in the annual

statement filed by a fraternal.

2. Other actuaries opine that it is appropriate to ignore most or all fraternal expenses in the asset adequacy testing because fraternal expenses are not “other liabilities” and can be eliminated at any time.

3. Still other actuaries believe that it is reasonable to ignore a small portion of the society’s fraternal expenses, for example, expenses that could be covered by the contribution of the insurance operation to the fraternal membership.

Noting these different points of view within the actuarial profession, and in the absence of any definitive guidance from the profession or the National Association of Insurance Commissioners (“NAIC”), the Department, beginning with the 2011 actuarial opinion and memorandum on reserves, requests that all asset adequacy analysis in the actuarial opinion filed by domestic fraternal benefit societies ***disclose the sensitivity*** of the asset adequacy analysis if all fraternal expenses are included as a base case scenario. This sensitivity should be disclosed in the actuarial memorandum, and in the Regulatory Asset Adequacy Issues Summary, if material.

In addition, if the qualified actuary assumes in the asset adequacy analysis that management will take future actions to reduce any expenses, the actuarial opinion memorandum should quantify and document those actions. This is reflected in ASOP 22, Section 3.4.7, which states that: “Any anticipated future actions by management to address adequacy concerns identified by the actuary should be considered in forming an opinion. The assumed results of any such actions should be quantified and documented by the actuary in the supporting memorandum.”

December 28, 2011  
Date

  
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Thomas B. Considine  
Commissioner

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