

**NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
NEW YORK, NY 10004**

**GUIDELINES WITH RESPECT TO PREPARING  
PLAN OF OPERATIONS  
and  
ACTUARIAL PROJECTIONS IN CONNECTION WITH  
APPLICATIONS FOR NEW YORK LICENSES and  
APPROVAL OF OTHER CHANGES IN CORPORATE STRUCTURE**

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**Introduction**

In keeping with sound business practices, the Department requires that:

- \* organizers of a new life insurance company,
- \* companies seeking to be licensed in New York,
- \* companies planning to merge,
- \* a company seeking acquisition of control of another company, and
- \* a company proposing other changes in corporate structure (including significant changes to a company's previously approved plan of operation)

submit a proposed plan of operation and/or, when required, appropriate actuarial projections covering anticipated financial experience over an appropriate prospective period.

The general purposes of such plan of operation and actuarial projections are:

- to require interested parties to be specific as to the proposed plan of operation of the new or changed organization,
- to alert prospective interested parties as to the course of projected gains or losses,
- to point out under-capitalization and the need for additional funds in early years, if indicated, and
- to make sure that surplus is sufficient to fund the sales projected.

**I. Plan of Operations**

The plan of operation is the company's plan as determined by the interested parties, and any and all actuarial projections must conform thereto. The plan of operation should cover the following areas:

- Distribution systems - Indicate whether the company will utilize branch office, general agency, full-time agents or brokers, direct or mass marketing, or any other distribution system. Include a description of contemplated plans for compensating and financing agents.
- Nature of business - Specify if the company expects to write:
  - Participating and/or Non-Participating business;
  - Individual Life insurance;
  - Individual Annuities;
  - Individual Accident and Health insurance;
  - Group Life insurance;
  - Group Health insurance;
  - Credit insurance;
  - Group Annuities; and
  - Separate Account business.

Estimate the approximate percentage distribution of each class of business. The Department requires special permits to allow stock companies to write participating business and mutual companies to write non-participating business.
- Description of policy portfolio - Include an estimate of the percentage distribution of business by the major plans of insurance and annuities, specifying traditional and interest-sensitive products, such as Universal Life, Flexible Premium Deferred Annuities, Indeterminate Premium policies, etc. and Separate Account business. Indicate the contemplated average size of policies in each plan group, and whether blocks of reinsurance, including assumption reinsurance, are in the portfolio.
- Underwriting bases - Include an estimate of the proportion of business that will be on a non-medical and guaranteed issue basis.
- Reinsurance basis - The company should describe its intended reinsurance program in detail for each product or line of business, whichever is appropriate.
- Service Agreements - Include a brief description of all current or proposed servicing arrangements with affiliates or third parties.

## II. Actuarial Projections

### A. Determining the Fundamental Parameters for Making Actuarial Projections

Using “best estimate” sales assumptions, the insurer shall:

- for each major line of business, split by major plan of insurance, and for the total company, make a five year projection of inforce and new business, combined;
  - for each major plan of insurance, make a ten-year projection of a single year’s new issues.
- For each major line of business, separately for the General Account and the Separate Account, the insurer will submit a ‘Gain and Loss’ exhibit for each of the projection years. The insurer shall also submit a condensed Balance Sheet, separately for the General and the Separate Account, for each of the projection years.

The Department will monitor the ongoing actual results during the five-year projection period. If we discover actual experience differs significantly from projected experience, either during or at the end of the monitoring period, then we may require that the insurer submit a revised projection and/or make additional capital contributions.

#### Target Surplus Factors

An important element of the actuarial projection is the determination of target surplus developed by applying the following Target Surplus Factors to the underlying base amounts for each type of business:

<u>Type of Business</u>	<u>Factor</u>	<u>Base</u>
<b>Individual Life</b>		
General Account	0.05	Reserves
Separate Account	0.05	Reserves (including Account Values)
<b>Annuities and Funding Agreements</b>		
General Account (group and individual) and book value separate accounts	0.04	Reserves
Market Value Separate Account with guarantees other than incidental death benefit guarantees	0.025	Assets
Market Value Separate Account without guarantees or with only incidental death benefit guarantees	0.01	Assets
<b>Group and Credit Life</b>		
General Account and Separate Account	0.10	1 year’s premium
<b>Accident and Health</b>		
(Individual and Group)	0.35	1 year’s premium
plus	0.05	claims reserves

Target surplus factors for types of business not shown above will be determined on a case-by-case basis.

Show the development of target surplus for each projection year.

In arriving at projected surplus amounts, we will exclude the contribution to surplus of any reinsurance which is determined to primarily provide a substitute for capital funding as opposed to an appropriate risk transfer instrument.

For each projection year, the target surplus results for the total company should be compared with the projected surplus for the year. The company should also supply projected adjusted capital and company action level risk-based capital (RBC), and the respective ratio. These results will be taken into consideration in determining whether additional capital is required.

B. Basic Assumptions for Actuarial Projections

An actuary should indicate the anticipated level of the following elements:

1. Gross premiums per unit, including charges for disability, double indemnity, etc. for typical plans of insurance and issue ages, stating basic premium assumptions, and whether premiums will be graded by size of policy.
2. Interest rates assumed, both gross yields and rates credited.
3. Rates of commission for the first and renewal years and rates of expense allowances for the leading plans of insurance.
4. General insurance expenses - determined on a per unit and/or per policy basis. Differentiate between first year and renewal expenses. Indicate what allowance you have made for anticipated inflation rates. If the projected investment yields are adjusted to reflect inflation, a similar adjustment should be made in projected expense factors.
5. Federal and state taxes.
6. Net reinsurance costs to the company. Premiums, claims and expense should be shown both before and after reinsurance.
7. Specimen scales of dividends to policyholders if participating business is expected to be written.
8. Experience mortality rates assumed in the computation of gross premiums and of any dividends.
9. Lapse rates - These should be specified for each major group of policies, indicating whether they have been based on actual company experience.
10. Bases of reserves and non-forfeiture values as required by the New York Insurance Law should be fully outlined.
11. A description of procedures to be used in matching assets and liabilities.

C. Description of Actuarial Projections

The company, making use of the information contained above, should make the required actuarial projections to cover each year in the appropriately assumed period of years. For each such year, projections will show items that capture 'Gain and Loss' experience, such as premiums, investment income, death claims, surrenders, other policy benefits, reinsurance costs, miscellaneous items and increase in reserves.

"Best estimate" sales assumptions should be used for all projections.

Include New York Insurance Law Section 4207a(1) shareholder dividends. We shall consider actual results to differ significantly from the projection if the company subsequently pays these dividends but did not include them in its projections.

For each major line, split by major plan, the Gain from Operations before and after Federal Income Taxes and policyholder dividends and the amount of statutory reserves and liabilities should be shown. In addition, the company should show the Capital, Surplus and the amount of statutory reserves and liabilities at the end of the year, on a total company basis. Indicate separately the amount of capital and surplus at the beginning of the first year of the projection.

The calculation of projected surplus should be done on a statutory basis. However, amounts attributable to the separate account Commissioner's Annuity Reserve Valuation Method (CARVM) expense allowance are to be excluded from projected surplus, and identified separately. Any other unusual items should also be identified.

A statement is required of the actuary who prepares the projections that generally accepted actuarial principles have been followed in making the projection. Where the actuary has accepted actuarial assumptions or actuarial projections (e.g., volume of business) from company officers, the actuary should name such officers and obtain statements from them authenticating their projections. A copy of the Valuation Actuary's most recent report should be included, for other than new companies.

Each sheet in the projection should contain the company's name and the date of the projection.

The Department may request further information from the Company during its review of these submissions.