WAC 284-07-400 Additional considerations for analysis. (1) Aggregation: For the asset adequacy analysis for the statement of actuarial opinion provided in accordance with WAC 284-07-380, reserves and assets may be aggregated by either of the following methods:

(a) Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business, before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

(b) Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(i) Are developed using consistent economic scenarios; or

(ii) Are subject to mutually independent risks, i.e., the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

(c) In the event of any aggregation, the actuary must disclose that in his or her opinion such reserves were aggregated on the basis of method (a), (b)(i), or (b)(ii) of this subsection, whichever is applicable, and describe the aggregation in the supporting memorandum.

(2) Selection of assets for analysis: The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, hereafter called "specified reserves." A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in subsection (3) of this section. If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

(3) Use of assets supporting the interest maintenance reserve and the asset valuation reserve:

(i) An appropriate allocation of assets in the amount of the interest maintenance reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the asset valuation reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

(ii) The amount of the assets used for the AVR shall be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum.

(iii) The method used for selecting particular assets or allocated portions of assets shall be disclosed in the memorandum.

(4) Required interest scenarios:

(a) For the purpose of performing the asset adequacy analysis required by this regulation, the qualified actuary shall follow standards adopted by the Actuarial Standards Board or equivalent standards approved in advance by the commissioner. In the analysis, the appointed actuary shall consider the effect of at least the following interest rate scenarios:

(i) Level with no deviation;

(ii) Uniformly increasing over ten years at a half percent per year and then level;

(iii) Uniformly increasing at one percent per year over five years and then uniformly decreasing at one percent per year to the original level at the end of ten years and then level;

(iv) An immediate increase of three percent and then level;

(v) Uniformly decreasing over ten years at a half percent per year and then level;

(vi) Uniformly decreasing at one percent per year over five years and then uniformly increasing at one percent per year to the original level at the end of ten years and then level; and

(vii) An immediate decrease of three percent and then level.

(b) For all scenarios used, projected interest rates for a five-year treasury note need not be reduced beyond the point where the five-year treasury note yield would be at fifty percent of its initial level.

(c) The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as treasury yields, of assets of the appropriate length on a date close to the valuation date.

(d) The method used to determine the beginning yield curve and associated interest rates shall be specifically defined. The beginning yield curve and associated interest rates shall be consistent for all interest rate scenarios.

(5) Documentation: The appointed actuary shall retain on file, for at least seven years, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions, and the results obtained.

[Statutory Authority: RCW 48.01.030, 48.02.060, 48.74.025, 48.36A.250 and 48.36A.260. WSR 95-02-036 (Order R 94-26), § 284-07-400, filed 12/30/94, effective 1/30/95.]