

**DEFINITIONS FROM ASOPs AND ACGs OF THE ASB
(including those from current exposure drafts)**

February 2011

- 1980 CSO Valuation Tables**—The Commissioners’ 1980 Standard Ordinary Mortality Table without ten-year select factors, incorporated in the 1980 amendments to the model NAIC *Standard Valuation Law*, and variations of the 1980 CSO valuation tables approved by the NAIC, such as the smoker and nonsmoker versions approved in December 1983. (ASOP No. 40)
- Accounting Date**—The stated cutoff date for reflecting events and recording amounts as paid or unpaid in a financial statement or accounting system. The accounting date is sometimes referred to as the “as of date.” (ASOP No. 36)
- Accrued Benefit or Accumulated Plan Benefit**—The amount of a participant’s benefit (whether or not vested) as of a specified date, determined in accordance with the terms of a retirement plan and based on compensation (if applicable) and service to that date. (ASOP No. 4)
- Activities of Daily Living (ADLs)**—Basic functions used as measurement standards to determine levels of personal functioning capacity. Typical ADLs include bathing, continence, dressing, eating, toileting, and transferring (between bed and chair or wheelchair). (ASOP No. 18)
- Actual Experience**—[1] Historical results within a dividend factor class and trends in those results. (ASOP No. 15) [2] Historical results and trends in those results. (ASOP No. 24)
- Actuarial Accrued Liability, Actuarial Liability, Accrued Liability, or Actuarial Reserve**—The portion of the actuarial present value of projected benefits (and expenses, if applicable), as determined under a particular actuarial cost method, which is not provided for by future normal costs. Under certain actuarial cost methods, the actuarial accrued liability is dependent upon the actuarial value of assets. (ASOP No. 4)
- Actuarial Appraisal**—An appraisal of an insurance business presenting a set of actuarial appraisal values. A set of actuarial appraisal values is based on a range of discount rates or a range of assumption sets, but may in certain circumstances, present a single unique value for the business. (ASOP No. 19)
- Actuarial Appraisal Calculations**—Any derivation of value or range of values based on projections of anticipated future quantities associated with the evaluated business, discounted to present value at appropriate risk-adjusted rates of return. (ASOP No. 19)
- Actuarial Appraisal Report**—A document which sets forth the procedures, methods, data, and assumptions used in actuarial appraisal calculations, as well as the results of these actuarial appraisal calculations. (ASOP No. 19)
- Actuarial Appraisal Value**—The present value, calculated as of the appraisal date, of projected distributable earnings of an insurance business where the distributable earnings are based on a set of assumptions. (ASOP No. 19)
- Actuarial Assumption**—[1] The value of a parameter, or other actuarial choice, having an impact on an estimate of a future cost, or other actuarial item, under evaluation. (ASOP No. 17) [2] The value of a parameter, or other choice, having an impact on an estimate of a future cost, income, or other actuarial item of a program under evaluation. (ASOP No. 32)
- Actuarial Assumptions**—Assumptions as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and government-provided pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods; and other relevant items. (ASOP No. 4)
- Actuarial Balance Sheet**—A measure of the assets and liabilities, as of the valuation date, associated with current residents. (ASOP No. 3)

Actuarial Calculations—Calculations for purposes of determining actuarial cost, benefit advice, and related information such as follows: (a) advice about funding, expense, or allocation of cost to time periods; (b) advice about the type and levels of benefits for specified cost levels; (c) maximum contributions deductible for tax purposes; (d) information required for the plan’s or the plan sponsor’s financial statements; (e) information required about plan design; (f) determination of progress toward a defined financial goal; (g) actuarial present value of benefits payable in the event of plan termination; (h) information about plan mergers, acquisitions, spin-offs, withdrawals and business discontinuances; (i) actuarial experience gains or losses; and (j) comparisons of accruals and cash flow requirements over various time frames. (ASOP No. 6)

Actuarial Central Estimate—An estimate that represents an expected value over the range of reasonably possible outcomes. (ASOP No. 43)

Actuarial Communication—A written, electronic, or oral communication issued by an actuary with respect to actuarial services. (ASOP No. 41)

Actuarial Contribution—The contribution a particular policy or class of similar eligible policies has made to the company’s statutory surplus and the asset valuation reserve, plus the present value of contributions that the same policy or class of similar eligible policies is expected to make in the future. (ASOP No 37)

Actuarial Cost Method or Funding Method—[1] A procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability (sometimes referred to as a *funding method*). (ASOP No. 4) [2] A procedure for allocating the actuarial present value of future plan costs over time periods. (ASOP No. 6)

Actuarial Document – An actuarial communication in any recorded form (such as paper, e-mail, spreadsheets, presentations, audio or video recordings, web sites, and court or hearing transcripts). Notes taken by someone other than the actuary are not considered actuarial documents. (ASOP No. 41)

Actuarial Finding—The result (including advice, recommendations, opinions, or commentary on another actuary’s work) of actuarial services. (ASOP No. 41)

Actuarial Gain (Loss) or Experience Gain (Loss)—A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method. (ASOP No. 4)

Actuarial Memorandum—A document that provides information regarding the analyses completed. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Actuarial Method—A procedure by which data are analyzed and utilized for the purpose of estimating a future cost or other actuarial item. (ASOP No. 17)

Actuarial Opinion—A conclusion drawn by an actuary from actuarial knowledge or from the application of one or more actuarial methods to a body of data. (ASOP No. 17)

Actuarial Present Value—[1] The value, as of a specified date, of a future benefit cost or series of benefit costs, where each amount (a) is adjusted for the probable effect of events (such as changes in price levels, compensation levels, Medicare, marital status, etc.); (b) reflects the probability of the occurrence of the event (such as survival, death, disability, termination of employment, utilization of services, etc.) on which payment is conditioned; and (c) is discounted according to an assumed rate (or rates) to reflect the time value of money. (ASOP No. 6) [2] The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions. (ASOP No. 4)

Actuarial Present Value of Projected Benefits—The actuarial present value of benefits that are expected to be paid in the future, taking into account the effect of such items as future service, advancement in age, and anticipated future compensation (sometimes referred to as the *present value of future benefits*). (ASOP No. 4)

Actuarial Report—[1] A document, or other presentation, prepared as a formal means of conveying the actuary’s professional conclusions and recommendations, of recording and communicating the methods

and procedures, and of ensuring that the parties addressed are aware of the significance of the actuary's opinion or findings. (ASOP No. 9) [2] A document, or other written presentation, prepared as a formal means of conveying an actuary's professional conclusions and recommendations; recording and communicating the methods, procedures, and assumptions; and providing the parties addressed with the actuary's

opinion or findings. (ASOP No. 32) [3] The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user. (ASOP No. 41)

Actuarial Services—Professional services provided to a principal by an individual acting in the capacity of an

actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations. (ASOP No. 41)

Actuarial Soundness—Small employer health benefit plan premium rates are actuarially sound if, for business in the state for which the certification is being prepared and for the period covered by the certification, projected premiums in the aggregate, including expected reinsurance cash flows, governmental risk adjustment cash flows, and investment income, are adequate to provide for all expected costs, including health benefits, health benefit settlement expenses, marketing and administrative expenses, and the cost of capital. For either a retrospective or a prospective certification, the determination of actuarial soundness is based on information available at the time the premium rates were established. (ASOP No. 26)

Actuarial Standard of Practice—A statement, adopted by the Actuarial Standards Board, the Interim Actuarial Standards Board, or the Board of Directors of the American Academy of Actuaries (AAA) and binding on members of the AAA, that defines acceptable practices in actuarial work. (ASOP No. 17)

Actuarial Status—A measure of the relative value of program income and program assets to program costs over a specified period of time. (ASOP No. 32)

Actuarial Valuation—[1] The determination, as of a measurement date, of the actuarial present value of a retirement plan benefit and any related benefits. (ASOP No. 34) [2] The measurement of relevant pension obligations and, when applicable, the determination of periodic costs or contributions. (ASOP No. 4) [3] The measurement of relevant pension obligations and, when applicable, the determination of the actuarial value of assets, periodic costs, or contributions. (ASOP No. 44)

Actuarial Value of Assets or Valuation Assets—[1] The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. (ASOP No. 4). [2] The value of pension plan investments and other property, used by the actuary for the purpose of an actuarial valuation (sometimes referred to as *valuation assets* or *market-related value of assets*). (ASOP No. 44)

Actuarial Work Product—The result of an actuary's work. The term applies to the following actuarial communications, whether written or oral: statements of actuarial opinion, actuarial reports, statements of actuarial review, and required actuarial documents. (ASOP Nos. 9 & 36)

Actuarially Equivalent—Of equal actuarial present value determined as of a given date with each value based on the same set of actuarial assumptions. (ASOP No. 4)

Acute Health Care—Health care for conditions of relatively short duration, which have a specific and foreseeable end. (ASOP No. 6)

Additional Fee—An amount that may be payable by a resident, in accordance with a residency agreement, for services made available but not covered by the advance fee and the periodic fees (such as guest meals, additional meals, barber/beauty shop, use of a carport, and non-covered health care services). (ASOP No. 3)

Adult Day Care—A program of social and health-related services designed to meet the needs of functionally or cognitively impaired adults, provided in a group setting other than the adult client's home. (ASOP No. 18)

Advance Fee—An amount payable by the resident at the inception of a residency agreement. The advance fee is usually specified in the residency agreement and is usually payable prior to the resident assuming occupancy of a living unit (sometimes referred to as an *entrance fee*, *endowment fee*, *entry fee*, or *founder's fee*). (ASOP No. 3)

Adverse Selection—[1] The actions of plan participants who are motivated directly or indirectly to take financial advantage of plan provisions, such as the choice of plan. (ASOP No. 6) [2] Actions taken by one party using risk characteristics or other information known to or suspected by that party that cause a financial disadvantage to the financial or personal security system (*sometimes referred to as antiselection*). (ASOP No. 12)

Advice—An actuary’s communication or other work product in oral, written, or electronic form setting forth the actuary’s professional opinion or recommendations concerning work that falls within the scope of this standard. (ASOP No. 12)

Age- or Service-Dependent Benefits—Benefits for which the amount or timing of benefit payments depends on the covered party’s age or length of service. (ASOP No. 34)

Aggregate Actuarial Cost Method—A method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the actuarial value of assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the actuarial present value allocated to a valuation year is called the *normal cost*. The actuarial accrued liability is equal to the actuarial value of assets.^{6,7} (ASOP No. 4)

Allocation Date—The date through which the benefits earned during the marriage are determined. Generally, this is the last day of the allocation period. (ASOP No. 34)

Allocation Method—A method used to determine the portion of retirement plan benefits that is included in marital property. (ASOP No. 34)

Allocation of Retirement Plan Benefits—The allocation of retirement plan benefits into two or more portions: a portion that is fully considered to be marital property and a portion that is not marital property, and perhaps a portion that is determined to be partially marital property. (ASOP No. 34)

Allocation Period—The period over which the benefits earned during the marriage are determined. This is typically the period from the date of marriage (or often the hire date, if later) to the date of marital separation. (ASOP No. 34)

Amortization Method—A method under a contribution or cost allocation procedure for determining the amount, timing, and pattern of recognition of the difference between the actuarial accrued liability and the actuarial value of assets. (ASOP No. 4)

Ancillary Benefit—A benefit which is incidental to a larger program and the cost of which is not material to the total program cost. For example, a retiree medical program that provides free blood pressure screening at the employer’s business location may be deemed to be providing an ancillary benefit under that retiree medical program. (ASOP No. 6)

Anticipated Experience Factor—An assumption that reflects anticipated experience and may be used to determine nonguaranteed charges or benefits. A particular anticipated experience factor reflects future experience of a specific type. Examples of experience factors include investment income, mortality, policy termination, and expense rates. (ASOP No. 1)

Anticipated Mortality—The appointed actuary’s assumption about the mortality to be experienced in the future on a group of policies. (ASOP No. 40) **Antiselection or Adverse Selection**—[1] The actions of individuals, acting for themselves or for others, who are motivated directly or indirectly to take financial advantage of the risk classification system. (ASOP No. 40) [2] The actions of individuals who are motivated directly or indirectly to take financial advantage of plan provisions, such as the choice of plan. (ASOP No. 6)

Applicable Law—[1] Federal, state, and local statutes, regulations, case law, and other binding authority that may govern the domestic relations action, the retirement plan or plans, or any other aspect of the actuary’s engagement. (ASOP No. 34) [2] Federal, state, and local statutes, regulations, case law, and other binding authority that may govern the conversion of the subject mutual life insurance company to a stock life insurance company, including conversion to a mutual holding company structure. (ASOP No. 33)

[3] Federal, state, and local statutes, regulations, case law, and other binding authority that may govern analysis of insurer cash flows. (ASOP No. 7) [4] Federal, state, and local statutes, regulations, case law, and other binding authority that may govern statements of actuarial opinion based on asset adequacy analysis. (ASOP No. 22) [5] Federal, state, and local statutes, regulations, case law, and other legal binding authority that may govern the actuarial work being performed. (ASOP No. 1)

Appointed Actuary—[1] Any individual who is appointed or retained in accordance with the requirements set forth in the model *Actuarial Opinion and Memorandum Regulation* of the National Association of Insurance Commissioners (NAIC). (ASOP No. 22 & ACG No. 4) [2] An actuary who is appointed or retained in accordance with the provisions of law, regulation, or contract or other arrangement, as the designee to issue a statement of actuarial opinion. (ASOP No. 36) [3] Any individual who is appointed or retained in accordance with the requirements set forth in the model NAIC *Actuarial Opinion and Memorandum Regulation*. (ASOP No. 40) [4] Any individual who is appointed or retained in accordance with the requirements set forth by applicable law. (ASOP No. 22)

Appraisal—An assessment of the value of an insurance business including, but not limited to, an actuarial appraisal. (ASOP No. 19)

Appraisal Date—The date as of which an appraisal value is assessed. (ASOP No. 19)

Appropriate—For purposes of data quality, data are appropriate if they are suitable for the intended purpose of an analysis and relevant to the system or process being analyzed. (ASOP No. 23)

Appropriate Data—For purposes of data quality, data are appropriate if they are suitable for the intended purpose of an analysis and relevant to the system or process being analyzed. (ASOP No. 23)

Asset—Any resource that can generate revenue or reduce disbursement cash flows. (ASOP Nos. 7 and 22)

Asset Adequacy Analysis—[1] An analysis of the adequacy of reserves and related items, in light of the assets supporting such reserves and related items, to meet the obligations of an insurer. (ACG No. 4) [2] 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. (ASOP No. 22)

Asset Risk—The risk that the amount or timing of items of cash flow connected with assets will differ from expectations or assumptions for reasons other than a change in investment rates of return. Asset risk includes delayed collectability, default, or other financial nonperformance. This has been commonly referred to in actuarial literature as the *C-1 risk* or *credit risk*. (ASOP Nos. 7 and 22)

Asset Valuation Basis—The method used to determine the stated value of a particular asset. (ASOP No. 20)

Asset Valuation Method—[1] A method used by the actuary to determine the actuarial value of assets. (ASOP No. 44)

Assisted Living Facility—A facility that provides residents some assistance with ADLs. Residents have apartments, rooms, or shared dwellings, and often share community living and dining areas with other residents. Usually meals, utilities, housekeeping, laundry, ambulation assistance, and personal care supervision is provided. Staff members may supervise the self-administration of medication. (ASOP No. 18)

Assumption Format—The form in which a particular demographic assumption will be used or expressed. In some cases, the assumption will take the form of a table where the probability of the occurrence of a given event depends on parameters such as gender, age, service, or calendar year. In other cases, the assumption may be a point estimate, implying 100% probability of occurrence of a given event at the stated point. example of a point estimate assumption is an assumption that 100% of the population will retire at age 62. The assumption format may include different tables or point estimates for different segments of the covered population. (ASOP Nos. 13 and 35)

Assumption Universe—[1] For each demographic assumption, a universe consisting of the possible options that the actuary might reasonably use for the specific assumption. For example, an assumption universe for a mortality assumption might reasonably include relevant published mortality tables and possible

adjustments, such as projections of mortality improvement. For some pension plans, an assumption universe for a specific assumption might reasonably include a table or factors developed specifically for that plan. (ASOP Nos. 13 and 35) [2] For each demographic assumption, a universe consisting of the possible options that the actuary might reasonably use for the specific assumption. For example, an assumption universe for a mortality assumption might reasonably include relevant published or proprietary mortality tables and possible adjustments, such as projections of mortality improvement. For some pension plans, an assumption universe for a specific assumption might reasonably include a table or factors developed specifically for that plan. (ASOP No. 27)

Attained Age Actuarial Cost Method—A method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability in respect of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The portion of this actuarial present value, which is allocated to a valuation year, is called the *normal cost*. The actuarial accrued liability is determined using the unit credit actuarial cost method. (ASOP No. 4)

Audit—To conduct a formal and systematic examination of a set of data for the purpose of testing its accuracy, using techniques commonly employed by audit professionals. (ASOP No. 23)

Auditor—The firm or professional engaged to conduct an examination in accordance with generally accepted auditing standards for the purpose of issuing an opinion on a financial statement. (ASOP No. 21)

Basic Reserves—Reserves calculated in accordance with section 5 of the model NAIC *Standard Valuation Law*. (ASOP No. 40)

Benefit Cost—The cost to the plan for making benefits available. In situations where the plan pays part or all of the charges of health care providers for services provided to plan participants, the benefit cost consists of the plan's share of those charges and the related administrative expenses. Where the plan pays periodic fees to those providers for making their services available, the benefit cost consists of those fees and any related administrative expenses. In instances where the obligation is fully insured, the benefit cost would be the insurance premium and any administrative expenses. (ASOP No. 6)

Best-Estimate Assumption—An assumption that reflects anticipated experience with no provision for risk of adverse deviation. (Ex. Draft, proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Best-Estimate Range—For each economic assumption, the narrowest range within which the actuary reasonably anticipates that the actual results, compounded over the measurement period, are more likely than not to fall. (ASOP No. 27)

Block of Business—[1] All policies of a common coverage type (for example, major medical, preferred provider organization, or capitated managed care); demographic grouping (for example, size, age, or area, group, or individual policies); or other segmentation useful for estimating incurred claims for actuarial purposes. (ASOP No. 5) [2] All contracts of a common coverage type, demographic grouping, contract type or other segmentation useful for estimating liabilities for actuarial purposes, or useful for a risk-assuming entity for evaluating its business. (ASOP No. 42)

Book Reserves—Amounts accrued (but not funded) on the financial statements of the plan sponsor. These represent a liability of the plan sponsor and, for some purposes, may be considered an asset of the plan. (ASOP No. 6)

Book Value—The value of an asset or assets, as included in a financial statement or other financial reporting context. (Exp. draft proposed revision of ASOP 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Capital—The funds intended to assure payment of obligations from insurance contracts, over and above those funds backing the liabilities. (ASOP No. 30)

Capitation—The amount of money paid to a provider by an exposure-based payment system to provide certain health care services to any Managed Care Health Provider members. The payment does not vary

on

the basis of the number or type of services actually rendered. The verb “to capitate” is used to indicate the act of entering into such an arrangement. Capitation is also sometimes used to mean the total medical cost or premium per enrollee, though it is not used in this manner in this document. (ASOP No. 5)

Capitation Arrangement—[1] An arrangement that calls for periodic payments to a provider to cover specified services to certain members of a health benefit plan regardless of the number or types of such services provided. (ASOP No. 42)

Carrier—Any entity subject to state regulation that offers health benefit plan coverage for sale. *Carrier* includes an insurance company, a prepaid hospital or medical service plan, a fraternal benefit society, a health maintenance organization, and any other entity offering for sale a plan of health insurance or health benefits. (ASOP No. 26)

Carve-Outs—Carve-outs are designated services provided by specified providers, such as prescription drugs or dental, or condition-specific services such as cancer, mental health, or substance abuse treatment. Carve-outs are often provided by a separate entity specializing in that type of designated service. (ASOP No. 42)

Cash and Investment Balance—The value of cash, cash equivalents, and marketable securities of a CCRC (historically referred to as *cash balance* by CCRC practitioners). This excludes the value of the physical property assets of the CCRC. (ASOP No. 3)

Cash Flow—Any receipt, disbursement, or transfer of cash. (ASOP Nos. 7 and 22)

Cash Flow Analysis—Any evaluation of the risks associated with the timing or amount of cash flows. (ASOP Nos. 7 and 22)

Cash Flow Testing—A form of cash flow analysis involving the projection and comparison of the timing and amount of cash flows resulting from economic and other assumptions. (ASOP Nos. 7 and 22)

Catastrophe—A relatively infrequent event or natural phenomenon that produces large aggregate losses. (ASOP No. 39)

Catastrophe Ratemaking Procedures—Ratemaking procedures that adjust for the impact of catastrophe losses in the experience data and determine a provision for catastrophe losses and loss adjustment expenses. (ASOP No. 39)

Chronic Health Care—Health care for conditions of a relatively long duration or of a recurring nature. (ASOP No. 6)

Claim—A demand for payment under the coverage provided by a plan or contract. (ASOP No. 36 and Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Claim Adjustment Expense—The costs of administering, determining coverage for, settling, or defending claims even if it is ultimately determined that the claim is invalid. (ASOP No. 43)

Client—In this standard, the word includes the employing company of an employee actuary, as well as the client of a consulting actuary. (ASOP No. 1)

Closed Block—A mechanism to preserve (over time) the reasonable dividend expectations of policyholders with individual life, health, or annuity policies. A closed block comprises a defined, limited group of policies and a defined set of assets, and is governed by a set of operating rules. All cash flows arising from the closed block are exclusively committed to supporting the policies in the closed block as specified in the operating rules. (ASOP No. 33)

Cognitive Impairment—A deficiency in a person’s short- or long-term memory; orientation as to person, place, and time; deductive or abstract reasoning; or judgment as it relates to safety awareness. (ASOP No. 18)

Cohort of New Residents—A hypothetical group of new residents assumed to enter the CCRC over a specified period of time and assumed to have certain demographic characteristics. (ASOP No. 3)

Commission and Brokerage Fees—Compensation to agents and brokers. (ASOP No. 29)

Comprehensive—For purposes of data quality, data obtained from inventory or sampling methods are comprehensive if they contain each data element or record needed for the analysis. (ASOP No. 23)

Comprehensive Data—For purposes of data quality, data obtained from inventory or sampling methods are comprehensive if they contain sufficient data elements or records needed for the analysis. (ASOP No. 23)

Consideration—The consideration a policyholder receives in a demutualization in exchange for relinquishing membership rights (sometimes referred to as *policyholder consideration*). (ASOP No. 37)

Contagion—A lack of independence between the occurrence of losses among different entities. (ASOP No. 39)

Contingency Provision—A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. (ASOP No. 30)

Contingent Participant—An individual who is not currently a participant but who may reasonably be expected to become a participant through his or her future action. (ASOP No. 6)

Continuing Care Retirement Community (CCRC)—[1] A residential facility that provides stated housekeeping, social, and health care services in return for some combination of an advance fee, periodic fees, and additional fees. (ASOP No. 3) [2] A residential facility for retired people that provides stated housekeeping, social, and health care services in return for some combination of an advance fee, periodic fees, and additional fees. (ASOP No. 18)

Contract Period—The time period for which a contract is effective. (ASOP No. 42)

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 the reserve for unearned premiums. (ASOP No. 42 and Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Contract Segmentation Method—The method of dividing the period from issue to mandatory expiration of a policy into successive segments, with the length of each segment being defined as set forth in section 4 of the *Model* and using the assumptions as set forth in section 4 of the *Model*. (ASOP No. 40)

Contribution—A potential payment to the plan determined by the actuary. It may or may not be the amount actually paid by the plan sponsor or other contributing entity. (ASOP No. 4)

Contributions—A payment made by a participant to support a retiree group benefit plan. While plan sponsors and employers will contribute funds to subsidize retiree group benefits, in this standard *contributions* refer to periodic payments required from participants for their plan coverage. (ASOP No. 6)

Contribution Allocation Procedure—A procedure for determining the periodic contribution for a plan. It may produce a single value, such as normal cost plus twenty-year amortization of the unfunded actuarial accrued liability, or a range of values, such as that from the ERISA minimum required contribution to the maximum tax-deductible amount. (ASOP No. 4)

Contribution Principle—The concept that aggregate divisible surplus is allocated to policies to reflect the proportion that the policies, as part of their dividend factor classes, are considered to have contributed to divisible surplus. (ASOP No. 15)

Cost Allocation Policy—An actuarial cost method combined with defined procedures to account for plan assets (if any) and amortization of changes in plan obligations (such as those arising from plan changes, experience gains and losses, assumption changes, or changes in actuarial cost methods. (ASOP No. 6)

Cost Allocation Procedure—A procedure for determining the periodic cost for a plan (for example, the procedure to determine the net periodic pension cost under Statement of Financial Accounting Standards (SFAS) No. 87, *Employer's Accounting for Pensions*). (ASOP No. 4)

Cost of Capital—[1] The rate of return that capital could earn in an alternative investment of equivalent risk. The source of the capital may be internal or external. (ASOP No. 26) [2] The rate of return that capital could be expected to earn in alternative investments of equivalent risk; also known as *opportunity cost*. (ASOP No. 30)

Cost(s)—[1] All benefit payments and expenses associated with issuing and maintaining a company's insurance policies and contracts, with no provision for profit. (Ex. Draft proposed revision of ASOP 10

*Methods and Assumptions for Use in life Insurance Company Financial Statements Prepared in Accordance with US GAAP) [2]*The portion of plan obligations assigned to a period for purposes other than funding. (ASOP No. 4)

Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation for claim payment associated with contingent events. (ASOP Nos. 13, 36, and 43)

Covered Party—The party in a domestic relations action who is covered by the retirement plan. (ASOP No. 34)

Covered Population—Active and retired participants, participating spouses and surviving spouses of participants who are eligible for benefit coverage under a retiree group benefit plan. The covered population may also include dependents and contingent participants. (ASOP No. 6)

Credibility—A measure of the predictive value in a given application that the actuary attaches to a particular body of data (predictive is used here in the statistical sense and not in the sense of predicting the future). (ASOP No. 12)

Credit Risk—Risk associated with the possibility of a loss on an investment arising from a borrower who does not make payments as promised. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Currently Payable Scale—A scale of non-guaranteed elements in effect for a policy form as of the preparation date of the illustration or declared to become effective within the next 95 days. (ASOP No. 24)

Custodial Care—Care to help a person perform ADLs and other routine activities; also known as *personal care*. It is usually provided by people without professional medical skills. It is less intensive or complicated than skilled or intermediate nursing care, and can be provided in many settings, including nursing homes, assisted living facilities, adult day care centers, or at home. (ASOP No. 18)

Data—[1] Statistical or other information that is generally numerical in nature or susceptible to quantification. (ASOP Nos. 17 and 36) [2] For purposes of this standard, the term refers to numerical, census, or classification information and not to general or qualitative information. Assumptions are not data per se, but data are commonly used in the development of actuarial assumptions. (ASOP No. 23) [3] For purposes of this standard, the term refers to numerical, census, or classification information and not to general or qualitative information. Assumptions are not data, but data are commonly used in the development of actuarial assumptions. (ASOP No. 23)

Data Element—An item of information, such as date of birth or risk classification. (ASOP No. 23)

Death Benefit—A benefit payable as a direct result of the death of a covered participant. *Death benefit* includes an amount payable as a result of accidental death or dismemberment. (ASOP No. 6)

Dedicated Assets—Assets designated by the plan sponsor for the exclusive purpose of satisfying the retiree group benefit obligations. (ASOP No. 6)

Deferred Policy Acquisition Cost (DPAC)—An asset representing the unamortized portion of policy acquisition expenses. (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Deferred Sales Inducements (DSI)—An asset representing the unamortized portion of sales inducements to policyholders. (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Deficiency Reserves—The excess, if greater than zero, of minimum reserves calculated in accordance with section 8 of the model NAIC *Standard Valuation Law* over basic reserves. (ASOP No. 40)

Demand Surge—A sudden and usually temporary increase in the cost of materials, services, and labor due to the increased demand for them following a catastrophe. (ASOP No. 39)

Demographic Assumptions—Demographic and all other noneconomic assumptions (i.e., those assumptions not covered in ASOP No. 27), unless explicitly stated otherwise. (ASOP Nos. 13, 27 and 35)

Demutualization—The conversion of a mutual company to a stock company. (ASOP No. 37)

Dependents—Individuals, other than spouses, who are covered under a retiree group benefits plan by virtue of their relationship to a participating employee or retiree. (ASOP No. 6)

Derivative Contract—Any security that derives its value from an underlying financial instrument. Examples include interest rate swaps, futures, and options. (ASOP No. 7)

Determination Policy—The insurer’s criteria or objectives for determining nonguaranteed charges or benefits for a particular policy class. (ASOP No. 1)

Development (or Lag) Method—A method under which historical claim data, such as the number and amount of claims for the subject block of business, are grouped into the time periods in which claims were incurred and the time periods in which they were processed. The processing date is typically the date the claim is received, adjudicated, or paid by the claim payer. The method uses these groupings to create a claims processing or development pattern, which is used to help estimate the unprocessed portion of incurred claims. (ASOP No. 5)

Deviation—The act of departing from the guidance of an ASOP. (ASOP No 41)

Direct User—A present or prospective client who has the opportunity to select the actuary and is able to communicate directly with the actuary about the actuary’s qualifications, work, or recommendations. (ASOP No. 34)

Disciplined Current Scale— A scale of nonguaranteed elements, certified annually by the illustration actuary, constituting a limit on illustrations currently being illustrated by an insurer that is reasonably based on actual recent historical experience and that satisfies the requirements set forth in the *Model*. (ASOP No. 24)

Discount Rate—The rate used to discount projected earnings to determine the present value used in an appraisal. (ASOP No. 19)

Discounted Unpaid Claim Estimate—The actuary’s estimate of the present value of the unpaid claim estimate. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Distributable Earnings—Amounts that an insurance business can distribute while retaining the level of capital required to support its ongoing operations. Distributable earnings consist of earnings of an insurance business computed using the applicable regulatory accounting basis, adjusted to allow for the injection or release of regulatory capital and surplus, in recognition of appropriate capital and surplus levels needed to support the ongoing operations. A regulatory accounting basis is the basis required by the insurance supervisory authority in a particular jurisdiction to be used for financial statement filings by insurance companies and similar entities in that jurisdiction. (ASOP No. 19)

Dividend Determination—Given the dividend framework, the process by which the divisible surplus is allocated to policies including the determination of dividend factors. (ASOP No. 15)

Dividend Factor—A value or set of values, other than the policy factors, used in the determination of the dividend on a particular policy. A dividend factor reflects the experience of the dividend factor class of policies to which the particular policy belongs. Examples of dividend factors include those related to mortality, morbidity, expense, investment income, policy termination, tax, and experience premiums. (ASOP No. 15)

Dividend Factor Class—A group of policies for which dividends are determined by using the same value or set of values for a particular dividend factor. (ASOP No. 15)

Dividend Framework—The structure by which the insurer allocates divisible surplus among participating policies. This includes the assignment of policies to dividend factor classes, the method of allocating income and costs, and the structure of the formulas or other methods of using dividend factors. (ASOP No. 15)

Domestic Relations Action—Prenuptial, postnuptial, separation, divorce, and support agreements, and other domestic relations proceedings. (ASOP No. 34)

Domestic Relations Order (DRO)—A court order dividing retirement plan benefits between the covered party and spouse. (ASOP No. 34)

Eligibility Date—Date (or dates) as of which a policy must be deemed in force, according to the plan of conversion, for the policyholder to be eligible to receive consideration. (ASOP No 37)

Eligible Policyholder—The owner of one or more policies eligible to receive consideration under the plan of conversion. (ASOP No. 37)

Entry Age Actuarial Cost Method or Entry Age Normal Actuarial Cost Method—A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *Actuarial accrued liability*. (ASOP No. 4)

Estimated Gross Margin—As defined in the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*, & 22. (ASOP No. 10)

Estimated Gross Profit—As defined in SFAS No. 97, & 23. (ASOP No. 10)

Event—The incident or activity that triggers potential for claim or claim adjustment expense payment. (ASOP Nos. 36 and 43)

Examiner—Employees of or contractors to state or federal regulators performing an examination of a financial statement on behalf of the governmental agency responsible for oversight of the financial condition of the entity. Most commonly, examiners are financial examiners of the various state departments of insurance. (ASOP No. 21)

Existing Business—Policies in force on the appraisal date, including any remaining obligations and risks that relate to coverage provided previously (e.g., the runoff of claim liabilities). (ASOP No. 19)

Expected Value Estimate—An estimate of the mean value of an unknown quantity where the mean value represents a probability-weighted average of the quantity over the range of all possible values. (ASOP No. 36)

Expense Limitations—Legislative or regulatory rules that disallow or limit certain categories of expenses in determining rates. (ASOP No. 29)

Expenses—Administrative or investment expenses expected to be borne by the plan. (ASOP No. 4)

Experience Factor Class—A group of policies for which non-guaranteed elements are determined by using common numerical values of a particular experience factor. (ASOP No. 24)

Experience Factor—A value or set of values that represents the actual experience of a policy form. Examples of experience factors include rates of mortality, expense, investment income, termination, and taxes. (ASOP No. 24)

Experience Period—The period of time to which historical data used for actuarial analysis pertain. (ASOP No. 13)

Expert—[1] One who is qualified by knowledge, skill, experience, training, or education to render an opinion or otherwise testify concerning the matter at hand. (ASOP Nos. 17). [2] One who is qualified by knowledge, skill, experience, training, or education to render an opinion concerning the matter at hand. (ASOP No. 38) [3] An actuary or other individual who is qualified by knowledge, skill, experience, training, or education to render an opinion concerning the matter at hand. (2nd Exp. draft, *Using Models Outside the Actuary's Expertise (for All Practice Areas)*)

Expertise—The specialized skill or knowledge possessed by an individual. (2nd Exp. draft, *Using Models Outside the Actuary's Expertise (for All Practice Areas)*)

Explicit Risk Margin—An explicit provision for uncertainty in a reserve or unpaid claim estimate. (ASOP No. 36)

Exposure—The extent of risk presented by one or more entities that have been provided coverage under a plan or contract. (ASOP No. 36)

Exposure Unit—A unit by which the cost for a health benefit plan is measured. For example, an exposure unit may be a contract, an individual covered, \$100 of weekly salary, or \$100 of monthly benefit. (ASOP Nos. 5 and 42)

Fee Structure—A combination of fees that generally includes advance fees, periodic fees, and additional fees. (ASOP No. 3)

Financial Adequacy—A condition in which program costs are projected not to exceed program income and assets over a specified period of time. (ASOP No. 32)

Financial or Personal Security System—A private or governmental entity or program that is intended to mitigate the impact of unfavorable outcomes of contingent events. Examples of financial or personal security systems include auto insurance, homeowners insurance, life insurance, and pension plans, where the mitigation primarily takes the form of financial payments; prepaid health plans and continuing care retirement communities, where the mitigation primarily takes the form of direct service to the individual; and other systems, where the mitigation may be a combination of financial payments and direct services. (ASOP No. 12)

Financial Projection—A projection of covered lives, premiums, claims, expenses, capital and surplus, or other financial quantities that may be required by applicable law. (ASOP No. 8)

Financial Statement—A report prepared for the purpose of presenting the financial position and the change in the financial position for the reporting period of an entity, prepared in accordance with the accounting requirements prescribed or permitted by state regulators, governmental accounting standards, or applicable generally accepted accounting principles. (ASOP No. 21)

Forecast Period—The future Time period to which the historical data are projected. (ASOP No. 13)

Formula Reserves—Amounts required under section B.6(e) of Section 7. However, *formula reserves* required by Section 7 do not include any additional reserves established as a result of an asset adequacy analysis. (ACG No. 4)

Frozen Attained Age Actuarial Cost Method—A method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation, over the sum of the actuarial value of assets plus the unfunded frozen actuarial accrued liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The unfunded frozen actuarial accrued liability is determined using the unit credit actuarial cost method. The portion of this actuarial present value allocated to a valuation year is called the *normal cost*. (ASOP No. 4)

Frozen Entry Age Actuarial Cost Method—A method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation, over the sum of the actuarial value of assets plus the unfunded frozen actuarial accrued liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The frozen actuarial accrued liability is determined using the entry age actuarial cost method. The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.^{6,7} (ASOP No. 4)

Full Credibility—The level at which a particular body of data is assigned full predictive value based on a selected confidence interval. (ASOP Nos. 25 and 40)

Full-Value Reserve—An un-discounted provision for the payment of outstanding losses and/or loss adjustment expenses in the anticipated future settlement amounts. (ASOP No. 20)

Functional Impairment—The inability to perform one or more ADLs. (ASOP No. 18)

GAAP Net Premium—The portion of gross premium that provides for costs. ((Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

General Administrative Expenses—All operational and administrative expenses (other than investment expenses) not specifically defined elsewhere in this section. (ASOP No. 29)

General Economic Inflation—Price changes over the whole of the economy. The most widely used indices are the Consumer Price Index and the Gross National Product price deflator. (ASOP No. 6)

Going-Concern Assumption—The assumption that a CCRC is and will remain able to attract new residents to replace existing residents as the latter vacate units. (ASOP No. 3)

Gross Premium—Amounts contractually required to be paid or anticipated to be contributed by the policyholder. ((Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Gross Premium Reserve—The actuarial present value of benefits, expenses, and related amounts less the actuarial present value of premiums and related amounts. (ASOP No. 22)

Gross Premium Reserve Test—The comparison of the gross premium reserve computed under one or more scenarios to the financial statement reserve. (ASOP No. 22)

Guaranteed Renewable Contract—A contract which provides that the insured has the right to continue the insurance in force for a specified period by the timely payment of premiums, and that the insurer may not unilaterally change the contract during that specified period, except that premium rates may be revised by the insurer on a class basis. (ASOP No. 18)

Health Benefit Plan—[1] Any hospital or medical policy or certificate; medical expense insurance; or subscriber contract or contract of insurance provided by a prepaid hospital, medical service plan, or health maintenance organization. (ASOP No. 26) [2] A contract 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-bearing organization, including benefit plans provided by self-insured or governmental plan sponsors. (ASOP No. 5) [4] A contract providing medical, dental, vision, disability income, accidental death and dismemberment, long-term care, and similar benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-bearing organization, including benefit plans provided by self-insured plan sponsors. (ASOP Nos. 7 and 22) [5] 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. (ASOP No. 42 and Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*) [6] A contract or other financial arrangement providing hospital, 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, irrespective of the type of health plan entity that provides the benefits. (ASOP No. 8)

Health Care Benefit—A benefit payable as a direct result of health care services to a participant include both acute and chronic care. Payments of capitation fees, including those for Medicare, are also health care benefits. Health care benefits may include benefits for medical, dental, vision, and other health-related services. (ASOP No. 6)

Health Care Guarantee—A clause in a residency agreement guaranteeing access to health care and defining the type of health care services to be provided to the resident. These health care services may be offered with or without additional charges to the periodic fees. (ASOP No. 3)

Health Care Trend—Changes over time in the per capita cost of providing health care benefits. These changes are brought about by several interrelated factors. (ASOP No. 6)

Health Center—A facility associated with a CCRC where health care is provided to residents in accordance with a residency agreement. The health center typically includes some combination of assisted living, special care, and nursing care units. Non-residents may also live in the health center. (ASOP No. 3)

Health Filing—A required regulatory filing, at least one element of which requires projection of future contingent events, for rates or benefits, or financial projections. Rate or benefit filings include, but are not limited to, the following: (a) filings of manual rates and rating factors; (b) filings of rating methodology, such as experience rating formulas and factors; (c) statements of actuarial soundness or rate adequacy, as may be defined by the regulatory body, for future rating periods; (d) certification of benefit values; and (e) other filings of similar nature as may be required by the regulatory body. Financial projection filings

include, but are not limited to, any filings in which the financial projections are a stand-alone requirement,

such as those for licensure requirements, or are a requirement of a broader filing, such as a rate filing or projections of future capital and surplus or other regulatory benchmark requirements. (ASOP No. 8)

Health Insurance—Coverage associated with contract provisions for medical, dental, vision care, disability income, accidental death and dismemberment, long-term care, and similar benefits, on either a reimbursement or service-benefit basis, sold by insurance companies, health maintenance organizations, hospital and medical service organizations, and other entities subject to insurance regulatory authorities. (ASOP No. 11)

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 contract reserves, experience refund liabilities, premium deficiency reserves, premium stabilization reserves, and liabilities for reinsurance payable. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Health Plan Entity—An insurance company, health maintenance organization, hospital or medical service organization, self-insured health benefit plan sponsor, governmental health benefit plan sponsor, or any other health benefit plan sponsor from which health filings are required. (ASOP No. 8)

Historical Contribution—The contribution a particular policy or class of similar eligible policies has made to the company's statutory surplus and asset valuation reserve in a given year. (ASOP No. 37)

Home Care—Care received at the patient's home, such as part-time skilled nursing care, custodial care, speech therapy, physical or occupational therapy, part-time services of home health aides, or help from

homemakers or chore workers. (ASOP No. 18)

Homogeneity—The degree to which the expected outcomes within a risk class have comparable value. (ASOP No. 12)

Hospice Care—A program that provides health care to a terminally ill person and counseling for that person and his or her family. Hospice care can be offered in a hospice setting established for this single purpose, a nursing home, or in the person's home, where nurses and social workers can visit the patient regularly. (ASOP No. 18)

Illustrated Scale—A scale of non-guaranteed elements currently being illustrated that is not more favorable to the policyholder than the lesser of the disciplined current scale or the currently payable scale. (ASOP No. 24)

Illustration Actuary—An actuary who is appointed in accordance with the requirements set forth in the *Model*. (ASOP No. 24)

Incentive Payment—A bonus payment to a provider, typically used to motivate efficiency or quality in patient care management, or to encourage retention of providers in a network. (ASOP No. 42)

Incurral Date—The date a claim is determined to be a liability of the organization in accordance with the terms of the health benefit plan. For health benefit plans where the claim must exceed a minimum threshold, for example where there is a deductible or elimination period, the incurral date may be the date claims begin to accumulate toward the threshold. (ASOP No. 5)

Incurred Claims—The value of all amounts paid or payable under a health benefit plan, determined by contract to be a liability with an incurral date during the valuation period. It includes all payments during the valuation period plus a reasonable estimate of unpaid claim liabilities. For an organization's income statement, incurred claims equal paid claims plus the estimate of unpaid claims liabilities at the end of the current valuation period less the estimate of unpaid claims liabilities at the end of the prior valuation period. (ASOP No. 5)

Independent Living Unit—Living quarters designed for residents capable of living independently. A resident could receive home health care in the independent living unit, but a resident who needs full-time health care on either a temporary or permanent basis is normally transferred to the health center. (ASOP No. 3)

Indeterminate Premium Policies—Life and health insurance policies under which the insurer is obligated to provide coverage for an extended period of time, and under which premiums may vary at the discretion of the insurer. (ASOP No. 10)

Individual—In this standard, the word refers both to individual life insurance and annuity contracts and to individual-type contracts issued under a “group” umbrella of any trust which does not have discretion to select the insurer(s) on behalf of all individual policyholders. (ASOP No. 1)

Individual Level Actuarial Cost Method or Individual Level Premium Actuarial Cost Method—A method under which the actuarial present value of each increment of an individual’s projected benefits is allocated on a level basis over the future earnings or service of the individual between the age at which such increment is first recognized and the exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*. Each individual’s portion of the actuarial accrued liability should be determined on a consistent basis, usually as the retrospective accumulation of the individual’s prior actuarial accrued liability and prior normal cost, using the valuation actuarial assumptions. (ASOP No. 4)

Individual Policy—Any policy (or contract) that is defined as an individual policy under state insurance law

or by the terms of the policy. Any certificate issued under any other policy that is sold to a passive trust but

is marketed to individuals is also defined as an *individual policy* for purposes of this standard. (ASOP No. 33)

Individual Spread Gain Actuarial Cost Method or Individual Aggregate Actuarial Cost Method—A method under which the actuarial present value of each increment of an individual’s projected benefits is allocated on a level basis over the future earnings or service of the individual between the age at which such increment is first recognized and the exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*. The actuarial value of assets is deemed to be assigned to individuals on a reasonable and consistent basis; for example, each individual’s share may be the accumulation of his or her prior normal costs and any prior actuarial gains (losses) allocated to the individual. Actuarial gains (losses) are allocated to individuals in proportion to the assigned actuarial value of assets, or on any other reasonable and consistent basis. The actuarial accrued liability for an individual equals the assigned portion of the actuarial value of assets. (ASOP No. 4)

Inflation—General economic inflation, defined as price changes over the whole of the economy. (Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Initial Assets—The assets allocated to a closed block at its inception. The assets of the closed block may be either of the following: (a) a distinct segment of assets (which may contain either 100% or a specified fraction of each designated asset) associated exclusively with the closed block; or (b) a defined share of a larger segment of assets. Such larger segment may also contain assets associated with participating business sold after the date of conversion. Such defined share will vary from time to time according to the methodology specified in the operating rules. (ASOP No. 33)

Initial Liabilities—The obligations ascribed to the closed block at its inception by the operating rules. (ASOP No. 33)

Instrumental Activities of Daily Living (IADLs)—Functions, more complex than ADLs, that are used as measurement standards of functioning capacity; examples include preparing meals, managing medications, housekeeping, telephoning, shopping, and managing finances. (ASOP No. 18)

Insurance Business—An enterprise involved in assuming insurance risk, such as one or any combination of the following: insurance company or health maintenance organization; a collection of policies or contracts in-force that cover insurance risk; and a distribution system that sells such policies or contracts. (ASOP No. 19)

Insurance Cash Flows—Funds from premiums and miscellaneous (non-investment) income from insurance operations, and payments for losses, expenses, and policyholder dividends. Associated income taxes are recognized when the analysis is on a post-tax basis. (ASOP No. 30)

Insurance Risk—The extent to which the level or timing of actual insurance cash flows is likely to differ from expected insurance cash flows. (ASOP No. 30)

Insurer—[1] An entity that accepts the risk of financial losses or, for a specified time period, guarantees stated benefits upon the occurrence of specific contingent events, in exchange for a monetary consideration. (ASOP Nos. 7, 18, and 22) [2] 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. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Intended Audience—[1] The persons to whom an appraisal report is directed and with whom the actuary, after discussion with the principal, intends to communicate. Unless otherwise specifically agreed, the principal is always a member of the intended audience. In addition, other persons or organizations, such as investors or regulators, may be designated by the principal, with consent of the actuary, as members of the intended audience. (ASOP No. 19) [2] All intended users. (Second Exp. draft, *Actuarial Communications*)

Intended User—Any person who the actuary identifies as able to rely on the actuarial findings. (ASOP No. 41)

Intermediate Nursing Care—Care needed for persons with stable conditions that require daily, but not 24-hour, nursing supervision. Intermediate nursing care is less specialized than skilled nursing care and often involves more custodial care. (ASOP No. 18)

Investment Contracts, Limited-Payment Contracts, and Universal Life-Type (UL-Type) Contracts—As each is defined in SFAS No. 97, & 6–14. (ASOP No. 10)

Investment Income—Proceeds (other than the return of principal) derived from the investment of assets, minus investment expenses. Associated income taxes are recognized when the analysis is on a post-tax basis. (ASOP No. 30)

Investment Income from Insurance Operations—The income associated with the investment of insurance cash flows. (This is sometimes referred to as *investment income on policyholder-supplied funds*.) (ASOP No. 30)

Investment Risk—[1] Uncertainty surrounding the realization of a specified investment income stream. Elements of investment risk include credit risk, market risk and liquidity risk. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*) [2] The extent to which the level or timing of actual investment proceeds is likely to differ from what is expected. (ASOP No. 30)

Investment-Rate-of-Return Risk—The risk that investment rates of return will differ from expectations or assumptions, causing a change in the amount or timing of asset, policy, or other liability cash flows. This has been commonly referred to in actuarial literature as the *C-3 risk* or *asset/liability mismatch risk*. (ASOP Nos. 7 and 22)

Judge—The judicial officer presiding over a domestic relations action, or an arbitrator, mediator, or special master acting in a similar adjudicatory capacity. (ASOP No. 34)

Levels of Care—Varying degrees of care, which are based on a resident’s health status. Typical levels of care include independent living units, assisted living units, nursing care units, and special care units. The levels of care may be dictated by state licensure. A transfer to a different level of care need not involve a transfer to a different type of living unit. (ASOP No. 3)

Leverage—A measure of the relative amount of risk to which capital is exposed, typically expressed as the ratio of an exposure measure (such as premium or liabilities) to the capital amount. (ASOP No. 30)

Liability—Any commitment by, or requirement of, an insurer that can reduce revenue or generate disbursement cash flows. (ASOP Nos. 7 and 22)

Life Care Community (LCC)—A CCRC in which nursing care is provided for life without increasing the periodic fee on account of a change in health. (ASOP No. 3)

Liquidation Rights—The rights (if any) that a member of a mutual company has upon liquidation of the company. (ASOP No. 37)

Liquidity Risk—The risk stemming from limited marketability of an investment (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Living Unit—The various living quarters of a CCRC, including independent living units and health center units. (ASOP No. 3)

Lock-in—A requirement to continue using original basis assumptions (as set at issue, acquisition, or prior redetermination due to a premium deficiency). (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Long-Range Period—A period long enough to discern the general pattern and level of future costs. (ASOP No. 32)

Long-Term Care (LTC)—A wide range of health and social services, which may include adult day care, custodial care, home care, hospice care, intermediate care, respite care, and skilled nursing care, but generally not care in a hospital. (ASOP No. 18)

Long-Term Care Insurance Plan—A policy, contract, or arrangement providing LTC benefits, either on a stand-alone basis or as part of a plan that provides other benefits as well (except where the LTC benefits are an immaterial feature). The plan will usually describe requirements for benefit eligibility, covered services, benefit amount, benefit payment duration, maximum benefit amount, and other coverage features. (ASOP No. 18)

Long-Term (Custodial) Care—A wide array of health and other support services for people who suffer a loss of functional capacity that results in the need for continual one-to-one assistance of another person in the activities of daily living, such as walking, dressing, eating, toileting, or mobility. (ASOP No. 6)

Loss—The cost that is associated with an event that has taken place and that is subject to coverage. It is also known as “claim amount.” The term “loss” may include loss adjustment expenses as appropriate (ASOP No.)

Loss Adjustment Expenses (LAE)—[1] All expenses incurred in investigating and settling claims. (ASOP No. 29) [2] The costs of administering, determining coverage for, settling, or defending claims even if it is ultimately determined that the claim is invalid. It is also known as “claim adjustment expense.” (ASOP No. 36)

Marital Property—Assets of the marital estate as determined under the laws and regulations of the applicable jurisdiction. (ASOP No. 34)

Market-Estimate Assumption—An assumption, obtained from market data, that represents what a typical market participant would use in assessing the amount the participant would pay to acquire a given asset, or the amount the participant would require to assume a given liability (a so-called “exit market” price). (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Market Interest Rates—Interest rates that are available on funds invested at a particular date. (ASOP No. 20)

Market Risk—Uncertainty regarding the future market value of an asset. (ASOP No. 20)

Market Value—[1] The price for which an asset could be sold at a particular date. (ASOP No. 20) [2] The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (sometimes referred to as *fair value*). (ASOP No. 44)

Material—[1] An item is material if it has an impact on the affected actuarial opinion, which is significant to the interested parties. (ASOP No. 17) [2] Resulting in an impact, significant to the interested parties, on the affected actuarial incurred claim estimate. (ASOP No. 5)

Measurement Date—[1] The date as of which the value of the pension obligation is determined (sometimes referred to as the *valuation date*). (ASOP Nos. 13, 35 and Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*) [2] The date as of which the

actuarial present value is determined. The measurement date may be different from the allocation date. (ASOP No. 34) [3] The date as of which the retiree group benefit obligation is determined (sometimes

referred to as the *valuation date*). (ASOP No. 6) [4] The date as of which the values of the pension obligations and, if applicable, assets are determined (sometimes referred to as the *valuation date*). (ASOP No. 4) [4] The date as of which the actuarial value of assets is determined (sometimes referred to as the *valuation date*). (ASOP No. 44)

Measurement Period—[1] The period subsequent to the measurement date during which a particular economic assumption will apply in a given measurement. (ASOP No. 27) [2] The period subsequent to the measurement date during which a particular demographic assumption will apply in a given measurement. (ASOP Nos. 13 and 35) [3] The period subsequent to the measurement date during which the chosen assumptions and other model components apply. (ASOP No. 6)

Medicare-Eligible Participant—A participating individual who is also entitled to Medicare benefits due to age or a qualifying disability. (ASOP No. 6)

Medicare Integration—The approach to determining the portion of a Medicare-eligible claim that is paid by the plan, after adjustment for Medicare reimbursements for the same claim. Types of Medicare integration include the following:

- a. Full Coordination of Benefits (Full COB)—The plan pays the difference between total eligible charges and the Medicare reimbursement amount, or the amount it would have paid in the absence of Medicare, if less.
- b. Exclusion—The plan applies its normal reimbursement formula to the amount remaining after Medicare reimbursements have been deducted from total eligible charges.
- c. Carve-Out—the plan applies its normal reimbursement formula to the total eligible charges, then subtracts the amount of Medicare reimbursement. (ASOP No. 6)

Membership Rights—Any rights a member of a mutual company has by virtue of ownership of an insurance policy, other than the contractual insurance rights under the policy. Typical membership rights include voting rights and the rights, if any, the member has upon liquidation of the company. (ASOP No. 37)

Merit Scale—The rates of change in an individual's compensation attributable to personal performance, promotion, seniority, or other individual factors. ((Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Method—A systematic procedure for estimating unpaid claims. (ASOP No. 43)

Model—[1] An information structure, such as a set of mathematical equations, logic, or algorithms, which is used to represent the behavior of specified phenomena. (ASOP No. 38) [2] A representation (including actuarial models), usually mathematical, of a specified phenomenon or behavior. A model typically includes mathematical equations, logic, algorithms, and associated data. (2nd Exp. draft, *Using Models Outside the Actuary's Expertise (for All Practice Areas)*) [3] A mathematical or empirical representation of a specified phenomenon. (ASOP No. 43)

Model Risk—The risk that the methods are not appropriate to the circumstances or the models are not representative of the specified phenomenon. (ASOP No. 43)

Model Select Mortality Factors—The select mortality factors in the appendix of the *Model*. (ASOP NO. 40)

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. (ASOP No. 22 and Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Morbidity Rate—The probability of incurring an illness or disability requiring the transfer to a different level of care. The permanent transfer rates and the temporary transfer rates together comprise the morbidity rates. (ASOP No. 3)

Mutual Company—A mutual life insurance company, or a mutual holding company formed in conjunction with the demutualization of a mutual life insurance company. (ASOP No. 37)

Net GAAP Liability—The GAAP policy benefit liability less any associated DPAC and DSI. ((Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Net Statement Liabilities—Reserves (net of reinsurance reserve credits), plus any other liabilities (such as amounts due reinsurers), less any other assets arising from reinsurance transactions (such as amounts receivable from reinsurers or deferred acquisition costs) for the reinsured block of business (ASOP No. 11)

Nonforfeiture Benefits—Benefits that are available if premiums are discontinued. (ASOP No. 18)

Nonguaranteed Charge or Benefit—Any element within a policy (as defined in section 2.5), other than policy dividends, which affects policyholder costs or value, and which may be changed at the discretion of the insurer after issue. Examples of nonguaranteed charges or benefits include excess interest, mortality charges or expense charges lower than those guaranteed in the policy indeterminate premiums, and participation rates for equity-indexed products. (ASOP No. 1)

Nonguaranteed Element— Any element within an insurance policy that affects policy costs or values that is not guaranteed or not determined at issue. A nonguaranteed element may provide a more favorable value to the policyholder than that guaranteed at the time of issue of the policy. Examples of nonguaranteed elements include policy dividends, excess interest, mortality charges, expense charges, indeterminate premiums, and participation rates for equity-indexed life insurance products. (ASOP No. 24)

Nonguaranteed Element Framework—The structure by which the insurer determines nonguaranteed elements. This includes the assignment of policies to experience factor classes, the method of allocating income and costs, and the structure of the formulas or other methods of using experience factors. For participating policies this would be the dividend framework defined in ASOP No. 15. For life policies within the scope of ASOP No. 1, the nonguaranteed element framework would include the concepts of policy class, determination policy, and anticipated experience factors. (ASOP No. 24)

Nonproportional Feature—[1] A feature of a reinsurance agreement that makes the reinsurer’s financial experience nonproportional to that of the ceding entity. Examples of such nonproportional features include aggregate claim limits, deductibles, limited coverage periods, experience refunds, profit sharing provisions, separate but related agreements, i.e., where the results of one agreement affect the operation of the other, and termination provisions. (ASOP No. 11)

Non-Resident—A person living in the CCRC who has signed an agreement without a health care guarantee and without a refund guarantee. Non-residents normally pay for all health care services received on a fee for service basis. (ASOP No. 3)

Normal Cost—The portion of the actuarial present value of projected benefits (and expenses, if applicable) that is allocated to a period, typically twelve months, under the actuarial cost method. Under certain actuarial cost methods, the normal cost is dependent upon the actuarial value of assets. (ASOP No. 4)

Normative Database—Data compiled from sources that are expected to be typical of the retiree group benefit plan, rather than from plan-specific experience. Examples of normative databases include published mortality and disability tables, proprietary premium rate manuals, and experience on similar retiree group benefits plans. (ASOP No. 6)

Notional Asset Portfolio—A portfolio of assets, not owned by the insurer, which changes the risk characteristics of either the assets or the liabilities of the insurer. (ASOP No. 7)

Nursing Home—A facility that provides skilled, intermediate, or custodial care. (ASOP No. 18)

One-Year Term Cost—The actuarial present value, as of a valuation date, of all benefits expected to become payable in the future as a result of an event or events expected to occur during a valuation year. (ASOP No. 4)

Open Group/Closed Group—Terms used to distinguish between two classes of actuarial cost methods. Under an open group actuarial cost method, actuarial present values associated with expected future

entrants are considered; under a closed group actuarial cost method, actuarial present values associated with future entrants are not considered. (ASOP No. 4)

Operating Profit—The sum of underwriting profit, miscellaneous (non-investment) income from insurance operations, and investment income from insurance operations. Associated income taxes are recognized when the analysis is on a post-tax basis. (ASOP No. 30)

Operating Rules—All portions of the plan of conversion that specify the methods and procedures for setting up, maintaining, and monitoring the operations of a closed block. (ASOP No. 33)

Oral Communication—An actuarial communication made orally that has not, to the knowledge of the actuary, been recorded or transcribed verbatim. Such an oral communication is an actuarial communication, but is not an actuarial document. (ASOP No. 41)

Other Acquisition Expenses—All costs, other than commission and brokerage fees, associated with the acquisition of business. (ASOP No. 29)

Other Liability Cash Flows—Cash flows not specifically associated with asset or policy cash flows. Examples are corporate expenses, payables, surplus notes, shareholder dividends, or balance sheet items that result from litigation. (ASOP Nos. 7 and 22)

Other User—[1] Any user of an appraisal report who is not a principal or member of the intended audience. (ASOP No. 19) [2] Any recipient of an actuarial communication who is not an intended user. (ASOP No. 41)

Parameter Risk—The risk that the parameters used in the methods or models are not representative of future outcomes. (ASOP No. 43)

Participant—[1] An individual who (a) is currently covered under a retiree group benefit plan, or (b) is reasonably expected to receive benefit coverage under a retiree group benefit plan upon satisfying the plan's eligibility and participation requirements. (ASOP No. 6) [2] An individual who satisfies the requirements for participation in the plan. (ASOP No. 4)

Participant Contributions—Amounts paid by participants or withheld from pensions and required by the plan sponsor for plan participation. (ASOP No. 6)

Participating Policy—An insurance or annuity policy under which the policyholder is entitled to participate in the distributable surplus of the company. (ASOP No. 10)

Pay-as-You-Go—A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due. (ASOP No. 4)

Periodic Fee—Amounts payable by a resident periodically (usually monthly) during the existence of a residency agreement. The periodic fees are typically adjusted from time to time to reflect changes in operating costs. (ASOP No. 3)

Permanent Transfer—A move from one level of care to another level of care without expectation of returning to the former level of care. (ASOP No. 3)

Physical Property—Physical assets, such as land, building, furniture, fixtures, or equipment, which belong to the CCRC. These assets, excluding land, are assumed to depreciate over their respective lifetimes. These assets are also referred to as the fixed assets of the CCRC. (ASOP No. 3)

Plan of Conversion—The plan under which a mutual company converts to a stock company. (ASOP No. 37)

Plan Provisions—(a) Relevant terms of the plan document; and (b) relevant administrative practices known to the actuary. (ASOP No. 4)

Policies—Individual participating policies and contracts for life insurance, disability insurance and annuities, and group certificates for these same types of business that operate in substantially the same manner as individual participating policies and contracts. (ASOP No. 15)

Policy—[1] Unless otherwise specified, the term *policy* (and its plural form, *policies*) in this standard includes both insurance policy and annuity contract. In some demutualizations it may also include supplementary contracts. (ASOP No. 37) [2] Any life insurance policy subject to the *Model*. (ASOP No. 40) [3] Except when used in the term *determination policy*, policy refers to individual life insurance policies and annuity contracts and group life insurance and annuity certificates with nonguaranteed charges or benefits that

operate in substantially the same manner as individual life insurance policies and individual annuity contracts with respect to nonguaranteed charges or benefits. (ASOP No. 1)

Policy Benefit Liability—An accrued obligation to policyholders that relates to the payment of future costs and amounts accrued for unearned revenue. The amount accrued for unearned revenue may or may not be shown separately in the company’s financial statements, but is, in any case, included in the policy benefit liability for purposes of this standard. (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Policy Cash Flow Risk—The risk that the amount or timing of cash flows under a policy or contract will differ from expectations or assumptions for reasons other than a change in investment rates of return or a change in asset cash flows. This has been commonly referred to in actuarial literature as the *C-2 risk*. (ASOP Nos. 7 and 22)

Policy Cash Flows—All premiums and other amounts paid by policyholders or contract holders to the insurer and all benefits, expenses, and other amounts paid to policyholders or others as required by policy or law. (ASOP Nos. 7 and 22)

Policy Class—A group of policies considered together for purposes of determining a nonguaranteed charge or benefit. (ASOP No. 1)

Policy Factor—[1] Financial components of a policy based on the guarantees or actuarial components underlying the policy. Examples of policy factors include cash values, reserves and their associated net premiums, gross premiums, policy loan interest rates, and the rates of interest, mortality, and morbidity used in calculating cash values or reserves. (ASOP No. 15) [2] A premium, value, charge, or benefit that limits a nonguaranteed charge or benefit. Policy factors are based on the guarantees defined in the policy.

Examples of policy factors include minimum cash values, minimum mortality charges, maximum gross premiums, and maximum policy loan interest rates. (ASOP No. 1)

Policyholder Dividends—Nonguaranteed returns of premium or distributions of surplus. (ASOP No. 29)

Population Projection—An estimate of the number of residents expected to live in the CCRC at various future times. (ASOP No. 3)

Portfolio Interest Rate—Interest rate on an investment portfolio, calculated relative to current book values or on other asset valuation bases. (ASOP No. 20)

Practical—[1] Realistic in approach, during the time of the assignment, given the purpose and nature of the assignment and any constraints, including cost and time considerations. (ASOP No. 23) [2] Realistic in approach, given the purpose, nature, and scope of the assignment and any constraints, including cost and time considerations. (ASOP No. 12)

Premium Deficiency—A condition that exists when the net GAAP liability plus the present value of future gross premiums is less than the present value of future benefits and expenses using current best estimate assumptions. (Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Premium Deficiency Reserve—A liability established when, for a period of time, the value of future premiums, current reserves, and unpaid claims liability are less than the value of future claim payments and expenses plus the anticipated liabilities at the end of the period. (ASOP No. 42)

Premium-Related Expenses—Those expenses that vary in direct proportion to premium, e.g., premium taxes. These expenses are sometimes referred to as *variable expenses*. (ASOP No. 29)

Prescribed Asset Valuation Method—A specific asset valuation method that is mandated by law, regulation, or other binding authority. For purposes of this standard, the plan sponsor would be considered a binding authority to the extent that law, regulation, or accounting standards give the plan sponsor responsibility for selecting such an asset valuation method. (ASOP No. 44)

Prescribed Assumption—[1] A specific assumption that is mandated or that is selected from a specified range that is deemed to be acceptable, by law, regulation, or other binding authority. (ASOP No. 21) [2]

A specific assumption that is mandated or that is selected from a specified range or set of assumptions that is

deemed to be acceptable by law, regulation, or other binding authority. (ASOP Nos. 13, 35, and Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Prescribed Assumption or Method—A specific assumption or method that is mandated or that is selected from a specified range that is deemed to be acceptable by law, regulation, or other binding authority to the extent that law, regulation, or accounting standards give the plan sponsor responsibility for selecting such an assumption or method. (ASOP No. 4)

Present Value—[1] The value on a given date of a future payment or series of future payments, discounted to reflect the time value of money. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*) [2] The value at a point in time of cash flows at other points in time, calculated at selected interest rates. It is also known as “discounted present value” or “discounted value.” (ASOP No. 36)

Principal—[1] A client or employer of the actuary. (ASOP Nos. 17 and 44) [2] A client or employer of the actuary. (ASOP No. 41) [3] The actuary’s client or employer. (ASOP No. 19) [4] The actuary’s client or employer. In situations where the actuary has both a client and an employer, as is common for consulting actuaries, the facts and circumstances will determine whether the client or the employer (or both) is the principal with respect to any portion of this standard. (ASOP No. 43)

Process Risk—The risk associated with the projection of future contingencies, that are inherently variable, even when the parameters are known with certainty. (ASOP No. 43)

Productivity Growth—The rates of change in a group’s compensation attributable to the change in the real value of goods or services per unit of work. (. (Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Program—A system for collecting income, maintaining trust funds, and paying benefits as prescribed by law or regulation. (ASOP No. 32)

Program Assets—The investments held by the trust fund, including any cash balance, available to meet program costs. (ASOP No. 32)

Program Cost—The program’s expenditures for benefits and administrative or general expenses. The expenditures for benefits are sometimes referred to as *claim costs*. The amount required to attain and maintain a target trust fund level may also be included. (ASOP No. 32)

Program Income—The program’s tax income, investment income, premiums, and any other receipts and income, other than loan proceeds. (ASOP No. 32)

Projected Benefits—[1] Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of actuarial assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual’s projected benefit allocated to service to date, determined in accordance with the terms of a pension plan and based on future compensation as projected to retirement, is called the *credited projected benefit*. (ASOP No. 4)

Projection Actuarial Cost Method or Forecast Actuarial Cost Method—A method under which the excess of the actuarial present value of the sum of projected benefit payments for a specified period plus a funding objective as of the end of the period over the actuarial value of assets is allocated on a level basis over the earnings or service of the group during the specified period, including earnings or service for any future entrants assumed. The allocation is performed for the group as a whole, not as a sum of individual allocations. The portion of this actuarial present value allocated to a valuation year is called the *annual cost allocation*. (ASOP No. 4)

Providers—[1] Individuals or organizations providing health care services, including doctors, hospitals, physical therapists, medical equipment suppliers, etc. (ASOP No. 16) [2] Individuals, groups, or organizations providing health care services, including doctors, hospitals, physical therapists, medical equipment suppliers, etc. (ASOP No. 42)

Provider-Related Liability—A liability established to cover expected future incentive or non-claim payments or to cover the possibility of a change in the relationship between the risk-assuming entity and a provider. (ASOP No. 42)

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. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Qualified Actuary—[1]An actuary who meets the qualification requirements set forth by applicable law. (ASOP No. 22) [2] 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. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Qualified Domestic Relations Order (QDRO)—A domestic relations order that satisfies the qualification requirements of Internal Revenue Code (IRC) section 414(p) and section 206(d) of the Employee Retirement Income Security Act of 1974 (ERISA). (ASOP No. 34)

Range of Results—The interval of results sufficient to reasonably illustrate the variability of the assumptions and reliability of the underlying data. (ASOP No. 6)

Rate—[1] An estimate of the expected value of future costs. (ASOP Nos. 29 & 30)

Rate of Investment Return—Investment income earned on funds held over time, generally expressed as an annualized percentage of the amount invested. (ASOP No. 20)

Ratemaking—The process of determining estimates of the expected value of future costs per unit of exposure for a group of risks. (ASOP No. 25)

Real Return—The sum of the risk premium and the real risk-free return. It can also be expressed as the nominal return less inflation. (. (Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Real Risk-Free Return—The return on an investment that is completely secure as to principal and yield in an environment with no inflation. (Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Reasonable Dividend Expectations—The expectations that the current dividend scale will be maintained if the experience underlying the current scale continues, and that the dividend scale will be adjusted appropriately if the experience changes. (ASOP No. 33)

Redetermination—Where appropriate, the term includes initial determination. (ASOP No. 1)

Refundable Advance Fee—The portion of an advance fee, designated in the residency agreement, that is to be returned to the resident or the resident’s estate either upon termination of the agreement or upon resale of the unit. (ASOP No. 3)

Regulatory Benchmark—A measurement, such as a loss ratio or capital ratio, specified by applicable law, which is used by the regulatory authority as a basis upon which to evaluate a health filing. (ASOP No. 8)

Reinsurance Agreement—An agreement whereby one or more elements of risk contained in insurance contracts are transferred from a ceding) insurance entity to a reinsuring (or assuming) insurance entity in return for some consideration. (ASOP No. 11)

Reinsurance Assumed—Reinsurance as it affects the entity assuming the risk under a reinsurance agreement. (ASOP No. 11)

Reinsurance Ceded—Reinsurance as it affects the entity ceding the risk under a reinsurance agreement. (ASOP No. 11)

Reinsurance Contract—A contractual agreement whereby some element of risk contained in the coverage provided by one or more plans or contracts is transferred from the ceding entity (the reinsured) to the assuming entity (the reinsurer). (ASOP No. 36)

Reinsurance Transaction—A transaction made pursuant to a reinsurance agreement. (ASOP No. 11)

Reinvestment Rate—The assumed yield rate on assets to be purchased with the closed block’s cash flows. (ASOP No. 33)

Reinvestment Risk—Uncertainty regarding the yields that will be available on reinvestment of proceeds from current investments that are subject to reinvestment in the future. (ASOP No. 20)

Related Experience—Premiums, losses, exposures, expenses, and other relevant data for coverage analogous to the coverage under consideration. Other data may include established rate levels or differentials. Such data might also be external to the client or the insurance industry, such as information on trends in claim costs or patterns of claim frequencies. (ASOP No. 25)

Required Actuarial Document—An actuarial communication of which the formal content is prescribed by law or regulation. (ASOP Nos. 9 & 32)

Reserve—An amount recorded in financial statements or accounting systems in order to reflect potential obligations. (ASOP No. 36)

Reserve Evaluation—The process of evaluating the reasonableness of a reserve. (ASOP No. 36)

Residency Agreement—The contract between one or more individuals and the CCRC that describes the services to be provided and the obligations of the parties. The contracts are usually of long duration and may be for the life of the individual or the life of the survivor of two or more individuals. The residency agreement describes the health care guarantee, if any, and any portion of the advance fee that would be refundable upon termination of the residency agreement. (ASOP No. 3)

Resident—A person living in the CCRC who has signed a residency agreement with a health guarantee or a refund guarantee. (ASOP No. 3)

Residual Market Provision—A provision for the entity’s costs that represents its share of residual market profits or losses. (ASOP No. 29)

Respite Care—Temporary care for frail or impaired persons that allows volunteers to have a rest from care giving. (ASOP No. 18)

Responding Actuary—An actuary expressly designated by an entity to respond to the auditor or examiner with respect to specified elements of the entity’s financial statement that are based on actuarial considerations. An entity may expressly designate one or more actuaries as responding actuaries for a particular audit or examination. (ASOP No. 21)

Retiree Election of Optional Benefit Plans—The choices that may be offered to retirees of differing copayments or other plan features within a health care delivery system. A participant contribution increase may be required to raise reimbursement levels or benefits. (ASOP No. 6)

Retiree Election of Optional Health Care Delivery Systems—The choice of health care delivery systems which may alter the cost of health care services. HMOs, retirement communities that provide medical care, and fee-for-service medical practice are examples of different delivery systems. (ASOP No. 6)

Retiree Group Benefits—Health, death, and other benefits (excluding retirement income benefits) that are provided during retirement to a group of individuals, on account of an employment relationship. (ASOP No. 6)

Retirement Plan—[1] An employment-related arrangement for determining the amount and timing of retirement benefit payments, eligibility for payments, etc. A retirement plan may be a defined benefit pension plan, a defined contribution plan, or a hybrid plan with both defined benefit and defined contribution elements. It may be a plan qualified under the Internal Revenue Code, a nonqualified plan of deferred compensation, or a governmental plan sponsored by the United States or its agencies or a state or local government. (ASOP No. 34)

Review—An informal examination of the obvious characteristics of the selected data to determine if such data appear reasonable and consistent for purposes of the assignment. A review is not an audit of data. (ASOP No. 23)

Reviewing Actuary—An actuary expressly designated by the auditor or examiner to assist with the audit or examination of a financial statement with respect to specified elements of the financial statement that are based on actuarial considerations. (ASOP No. 21)

Review Date—The date (subsequent to the valuation date) through which material information known to the actuary is included in forming the reserve opinion. (ASOP No. 36)

Risk(s)—Individuals or entities covered by financial or personal security systems. (ASOP No. 12)

Risk-Assuming Entity—The entity with respect to which the actuary is determining liabilities associated with health benefit plans or risk-sharing arrangements. (ASOP No. 42)

Risk Characteristics—Measurable or observable factors or characteristics that are used to assign each risk to one of the risk classes of a risk classification system. (ASOP No. 12)

Risk Class—A set of risks grouped together under a risk classification system. (ASOP No. 12)

Risk Classification System—A system used to assign risks to groups based upon the expected cost or benefit of the coverage or services provided. (ASOP No. 12)

Risk-Free Interest Rate—The theoretical rate of return of an investment with zero risk with respect to payment timing and amount. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Risk Margin—A provision for uncertainty in an unpaid claim estimate (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Risk of Adverse Deviation—The risk that actual experience may differ from best-estimate assumptions in a manner that produces costs higher than assumed or revenues less than assumed. ((Ex. Draft proposed revision of ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*)

Risk Premium—The portion of real return that reflects uncertainties of future payments and appreciation. (Ex. Draft proposed revision of ASOP No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*)

Risk-Adjusted Rate of Return—An expected or target annual return to the investor that includes a risk-free return that compensates the investor for the use of the funds (recognizing anticipated inflation so as to maintain the real value of those funds), plus a risk premium above the risk-free rate that compensates the investor for the risk that actual returns will deviate from expected. The size of the risk premium varies with the degree of risk associated with the returns. (ASOP No. 19)

Risk-Free Interest Rate—The interest rate that reflects only the time value of money. (It is understood that the time value of money includes inflation expectations.) The risk-free interest rate is lower than rates of investment return on asset portfolios subject to greater investment risk. (ASOP No. 20)

Risk-Sharing Arrangement—An arrangement involving a provider, calling for payments to or from the provider where the payment is not related to a specific service performed by that provider, and the payment is contingent upon certain financial or operational goals being achieved. Examples of risk-sharing arrangements include provider incentives, bonuses, and withholds. (ASOP No. 42)

Scenario—[1] A set of economic, demographic, and operating assumptions on the basis of which projections are made. (ASOP No. 32) [2] A set of economic and other assumptions used in performing cash flow analysis. (ASOP Nos. 7 and 22)

Short-Range Period—A period long enough to encompass a complete economic cycle or planning cycle, whichever is appropriate. (ASOP No. 32)

Skilled Nursing Care—Care provided by skilled medical personnel, such as registered nurses or professional therapists, but generally not care in a hospital. (ASOP No. 18)

Small Employer—Any person, firm, corporation, partnership, or organization that employs a number of eligible employees within a statutorily specified range that has an upper bound and that satisfies any other statutorily defined criteria. (ASOP No. 26)

Social Influences—The impact on insurance costs of societal changes such as changes in claim consciousness, court practices, and legal precedents, as well as in other noneconomic factors. (ASOP No. 13)

Spouse—[1] A party to the domestic relations action who is not the covered party. Normally, the term refers to the current spouse or former spouse of the covered party, but may on occasion refer to a child (or children)

or other party to the domestic relations action. (ASOP No. 34) [2] A husband, wife, or domestic partner eligible for retiree group benefits. (ASOP No. 6)

Statement of Actuarial Opinion—[1] A formal statement of the actuary’s professional opinion on a defined subject. It outlines the scope of the work but normally does not include descriptive details. (ASOP No. 9)

[2] A formal statement of the actuary’s professional opinion on a defined subject. (ASOP Nos. 32 and 36)

[3] 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. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Statement of Actuarial Review—A formally communicated appraisal of actuarial work done by another person. (ASOP No. 9)

Statutory Assessment Provision—A provision for the entity’s costs stemming from any mandated assessment. (ASOP No. 29)

Stop-Loss Coverage—Insurance protection providing reimbursement of all or a portion of claims in excess of a stated amount. Stop-loss coverage may be either individual or aggregate (sometimes referred to as *excess loss coverage*). (ASOP No. 6)

Subject Experience—Premiums, losses, exposures, expenses, and other data relevant to the coverage under consideration. (ASOP No. 25)

Subsequent Events—[1] Events that occur after the valuation date and before the date of the opinion. (ASOP No. 22) [2] Events (1) that have occurred since the end of the certification period and before the date of the certification, (2) that could materially affect current or future certifications rendered, and (3) about which the actuary has knowledge. (ASOP No. 26)

Survivor—A spouse or dependent who continues as a participant under the retiree group benefit plan following the death of a participating employee or retiree. (ASOP No. 6)

Tabular Method—The application of a factor to a volume measure (for example, number of individual claims) based on prior experience, in order to estimate unpaid claims liabilities for reported claims (commonly used for long-term claims). (ASOP No. 5)

Taxes, Licenses and Fees—All taxes and miscellaneous fees except federal and foreign income taxes. (ASOP No. 29)

Temporary Transfer—A move from one level of care to another level of care with the expectation of returning to the former level of care. (ASOP No. 3)

Ten-Year Select Factors—The select factors adopted with the 1980 amendments to the model NAIC *Standard Valuation Law*. (ASOP No. 40)

Terminal Funding—A method of funding a pension plan under which the entire actuarial present value of benefits for each individual is contributed to the plan’s fund at the time of withdrawal, retirement, or benefit commencement. (ASOP No. 4)

Testimony—Communication presented in the capacity of an expert witness at trial, in hearing or arbitration, in deposition, or by declaration or affidavit. Such testimony may be oral or written, direct or responsive, formal or informal. (ASOP No. 17)

Time Value of Money—The principle that an amount of money available at an earlier point in time has different usefulness and value than the same amount of money has at a later point in time. (ASOP No. 8)

Tontine—An outcome of a closed block in which relatively few last surviving policyholders receive dividends substantially disproportionate to those previously received by other policyholders in the same closed block, particularly policyholders who had persisted for a considerable period. (ASOP No. 33)

Total Return—The sum of operating profit and investment income on capital, usually after income taxes, often expressed in percentage terms. (ASOP No. 30)

Trending Period—The time over which trend is applied in projecting from the experience period to the forecast period. (ASOP No. 13)

Trending Procedure—A process by which the actuary evaluates how changes over time affect items such as claim costs, claim frequencies, expenses, exposures, premiums, retention rates, marketing/solicitation response rates, and economic indices. Trending procedures estimate future values by analyzing changes between exposure periods (for example, accident years or underwriting years). A trending procedure does not encompass the process commonly referred to as “development,” which estimates changes over time in losses (or other items) within a given exposure period. (ASOP No. 13)

Trend(s)—[1] Measures of rates of change, over time, of the elements affecting incurred claims. (ASOP No. 5) [2] A measure of a rate of change, over time, of the per capita health care rates. (ASOP No. 6) [3] Measures of rates of change, over time, of the elements affecting the determination of certain liabilities. (ASOP NO. 42) [4] Measure of rates of change, over time, that affects revenues, costs, or actuarial assumptions. (ASOP No. 3)

Trust Fund—An account to which income is credited and from which benefits and often administrative expenses are deducted for a specified program. (ASOP No. 32)

Underwriting Expenses—All expenses except losses, loss adjustment expenses, investment expenses, policyholder dividends, and income taxes. (ASOP No. 30)

Underwriting Profit—Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends. (ASOP No. 30)

Underwriting Profit Provision—The provision for underwriting profit in the actuarially developed rate, typically expressed as a percentage of the rate. (ASOP No. 30)

Unfunded Actuarial Accrued Liability, Unfunded Actuarial Liability, Unfunded Accrued Liability, or Unfunded Actuarial Reserve—The excess of the actuarial accrued liability over the actuarial value of assets.²³ (ASOP No. 4)

Unfunded Frozen Actuarial Accrued Liability or Unfunded Frozen Actuarial Liability—An unfunded actuarial accrued liability which is not adjusted (“frozen”) from one actuarial valuation to the next to reflect actuarial gains (losses) under certain actuarial cost methods. Generally, this amount is adjusted by any increments or decrements in actuarial accrued liability due to changes in pension plan benefits or actuarial assumptions subsequent to the date it is frozen. Adjustments are made from one actuarial valuation to the next to reflect the addition of interest and deduction of amortization payments. (ASOP No. 4)

Unit Credit Actuarial Cost Method—A method under which the benefits (projected or unprojected) of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the *normal cost*. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the *actuarial accrued liability*. (ASOP No. 4)

Unpaid Claim Estimate—[1] The actuary’s estimate of the obligation for future payment resulting from claims due to a past events. (ASOP No. 43) [2] The process of developing an unpaid claim estimate. (ASOP No. 36) [3] The actuary’s estimate of the obligation for future payment resulting from claims due to past events. For clarity and unless otherwise indicated, this estimate is on an undiscounted basis and the terms “unpaid claim estimate” and “undiscounted unpaid claim estimate” are used interchangeably throughout this standard. (Ex. Draft proposed revision of ASOP No. 20, *Discounting of Property/Casualty Unpaid Claim Estimates*)

Unpaid Claim Estimate Analysis—The process of developing an unpaid claim estimate. (ASOP No. 43); and (2nd Ex. draft proposed revision of ASOP No. 36 *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*)

Unpaid Claims Liability—[1] The value of the unpaid portion of incurred claims includes (1) unreported claims; (2) reported but unprocessed claims; and (3) processed but unpaid claims. For an organization’s balance sheet, the unpaid claims liability includes provision for all current and prior valuation periods. (ASOP No. 5) [2] The value of the unpaid portion of incurred claims includes (a) unreported claims; (b) reported but unprocessed claims; and (c) processed but unpaid claims. For a risk-assuming entity’s balance sheet, the unpaid claims liability includes provision for all unpaid claims incurred during the contract Period as of the current valuation date. (ASOP No. 42)

Valuation Date—[1] The date as of which the liabilities are determined. (ASOP No. 42) [2] The date as of which the values of the assets and liabilities of the CCRC are determined. (ASOP No. 3) [3] The date through which transactions are included in the data used in the unpaid claim estimate analysis. (ASOP No. 36) [4] 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. (Ex. Draft proposed revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities*)

Valuation Period—A defined period for which incurred claims are recorded. (ASOP No. 5)

Voting Rights—The right to elect members of the board of directors of the mutual company and the right to vote on any proposed reorganization (including demutualization). (ASOP No. 37)

Withdrawal Rate—The probability that a residency agreement will be terminated by the resident’s leaving the CCRC for reasons other than death. (ASOP No. 3)

X Factor Class—A group of policies under one or more plans of insurance to which a single set of X factors applies. An example of an X factor class could be a male preferred non-smoker underwriting class, having one set of X factors covering all issue ages and durations for several plans of insurance. (ASOP No. 40)

X Factors—For durations in the first segment (only), as determined under the contract segmentation method, the percentages that may be applied to the *Model* select mortality factors for the purpose of calculating deficiency reserves. Subject to the requirements set forth in section 5 of the *Model*, the X factors may vary by policy year, policy form, underwriting classification, issue age, or any other policy factor expected to affect mortality experience. (ASOP No. 40)