



**STATE OF RHODE ISLAND**  
**OFFICE OF THE ATTORNEY GENERAL**

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*Peter F. Neronha*  
*Attorney General*

August 5, 2023  
Via Electronic Mail Only  
Mr. Cory King  
Acting Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
[Cory.King@ohic.ri.gov](mailto:Cory.King@ohic.ri.gov)

**In Re: Rates Filed for 2024 Aetna Large Group filing.**

Dear Acting Commissioner King:

The Rhode Island Office of the Attorney General objects to Aetna's requested rate increase of 6.6% for its large group filing. The Attorney General's objections are based on actuarial findings and the unaffordability of the proposed rate.<sup>1</sup> Our Office asks that you exercise your authority to consider the financial strain this will place on Rhode Islanders and deny or reduced the requested 6.6% increase.

After a review of the actuarial analysis and a review of the affordability of the requested rate increase, the Office of the Attorney General recommends that Aetna's current Large Group rates be *reduced* by 2.6%.

**Preliminary Statement**

The Attorney General addresses OHIC in his distinct role in this rate review: to represent, protect and advocate for Rhode Islanders who are consumers of insurance products both now and in the future. R.I. Gen. Laws § 27-36-1. In addition, as the State's Health Care Advocate, the Attorney General is obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of this State. R.I. Gen. Laws § 42-9.1-1. The mission of the Office of the Health Insurance Commissioner states is to protect health care access, affordability, and quality. Here, OHIC has the opportunity to reaffirm its commitment to its mission by rejecting the unnecessary rate increase requested by Aetna and instead decreasing Aetna's

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<sup>1</sup> OHIC held a public comment meeting via Zoom on the Rate Review Process on Monday, July 17, 2023, at 4:30 pm and members of this Office attended.

rate from last year's rate. This Office encourages OHIC to do so and keep insurance affordable for the Rhode Islanders who rely on Aetna for health coverage.

### **Actuarial Analysis**

The Office of Attorney General is charged with representing, protecting and advocating for the rights of consumers, including hiring experts, even if a rate hearing was not triggered. *See* R.I. Gen. Laws § 27-36-1; *see also* R.I. Gen. Laws § 27-36-2(a). Consistent with that obligation, an actuarial analysis of Aetna's large group filing was conducted and is submitted in support of this public comment.

The team of actuaries found assumptions regarding both projected trends and profit margins to be the primary drivers that support a decrease to Aetna's requested rate. The actuaries found that Aetna's assumptions regarding utilization of insurance were calculated without the proper support.<sup>2</sup> Moreover, its assumption regarding both utilization trends and unit costs, or the prices contracted between insurers and provides, are higher than market-wide averages over the past three years and does not appear to be reasonable.<sup>3</sup>

Further, Aetna proposed a 4% profit margin in this filing. This request is 3% higher than last year's 1% profit margin approved by the Commissioner.<sup>4</sup> The actuaries found that given the capital and surplus levels of Aetna and its affiliates, this increase in profit is not necessary. Thus, the Office of the Attorney General urges the Acting Commissioner to deny Aetna's requested increase.

### **Unaffordability of the Requested Rate Increase**

Aetna has requested that the 60 Rhode Islanders that rely on the company for health insurance pay 6.6% more than last year to remain covered. Notably, Aetna is requesting to raise rates and shift the financial burden to a small group of consumers after enjoying increased profits year-over-year since CVS purchased the insurer. In fact, Aetna made more than \$80 billion in revenue in 2022.<sup>5</sup> Aetna's increase in revenue is due to it being a part of CVS Caremark's horizontal integration. The insurance company is now owned by CVS Caremark, which also owns Oak Street

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<sup>2</sup> Lewis& Ellis Atna Large Group Market analysis page 3.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> Becker Payer Issues "CVS Health year-end revenue tops \$292B, Aetna revenue up 9%: 10 things to know," February 9<sup>th</sup>, 2022, <https://www.beckerspayer.com/payer/cvs-health-year-end-revenue-tops-292b-aetna-revenue-up-9-10-things-to-know.html>

Health, and Signify Health.<sup>6</sup> These many profitable businesses have resulted in a \$90-billion market value for the corporation.<sup>7</sup> CVS Caremark enjoyed a year of outperformance and robust cashflow in 2022, which generated over \$300 billion in total revenue.<sup>8</sup> This represents double-digit growth over the previous year.<sup>9</sup> Aetna is now the third largest health care plan provider in the country.<sup>10</sup> Aetna played a major role in Caremark's success. The insurer brought in \$91.4 billion in revenue in 2022, an increase of almost \$10 billion over 2021 revenue.<sup>11</sup> This success would not be passed on to consumers, as Aetna is requesting a premium increase higher than the current rate of inflation, which is 3%.<sup>12</sup> In fact, despite this economic success, Aetna is requesting a 4% increase in its allocation to profit, which would increase the cost of Rhode Islander health insurance while contributing to the billions the insurer already has amassed.

As Rhode Island consumers would be bearing increased costs, , the C-Suite at Caremark has benefitted. In 2022, CVS's CEO made over \$21 million, the CFO made over \$14 million, and several other executives made in excess of \$9 million.<sup>13</sup> Although Aetna and its parent company experienced double digit growth in the billions, wages for consumers, who will bear the majority of the cost for the rate increase, rose just 4.4% in 2022. <sup>14</sup>

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<sup>6</sup> Dallas Morning News, "Motley Fool: Array of healthcare services gives CVS long-term stability," June 16, 2023, <https://www.dallasnews.com/business/personal-finance/2023/07/16/motley-fool-array-of-health-care-services-gives-cvs-long-term-stability/>

<sup>7</sup> Dallas Morning News, "Motley Fool: Array of healthcare services gives CVS long-term stability," June 16, 2023, <https://www.dallasnews.com/business/personal-finance/2023/07/16/motley-fool-array-of-health-care-services-gives-cvs-long-term-stability/>

<sup>8</sup> CVS Health, "CVS Health Reports Strong Full Quarter and Full-Year 2022 Results," February 8, 2023, [CVS Health - CVS HEALTH REPORTS STRONG FOURTH QUARTER AND FULL-YEAR 2022 RESULTS](https://www.cvshealth.com/press-releases/2023/02/08/cvs-health-reports-strong-full-quarter-and-full-year-2022-results)

<sup>9</sup> CVS Health, "CVS Health Reports Strong Full Quarter and Full-Year 2022 Results," February 8, 2023, [CVS Health - CVS HEALTH REPORTS STRONG FOURTH QUARTER AND FULL-YEAR 2022 RESULTS](https://www.cvshealth.com/press-releases/2023/02/08/cvs-health-reports-strong-full-quarter-and-full-year-2022-results)

<sup>10</sup> Dallas Morning News, "Motley Fool: Array of healthcare services gives CVS long-term stability," June 16, 2023, <https://www.dallasnews.com/business/personal-finance/2023/07/16/motley-fool-array-of-health-care-services-gives-cvs-long-term-stability/>

<sup>11</sup> Fierce Healthcare, "CVS reports double-digit revenue growth in 2022, \$4.1 billion in profit," February 8, 2023, <https://www.fiercehealthcare.com/payers/cvs-reports-double-digit-revenue-growth-2022-41b-profit#:~:text=For%20the%20full%20year%202022%2C%20Aetna%20brought%20in,billion%20haul.%20Both%20represent%20increases%20of%20about%2011%25.>

<sup>12</sup> The Guardian, "US Inflation Rate Down to 3% in June, a two-year low, but prices remain high" July 12, 2023, <https://www.theguardian.com/business/2023/jul/12/us-inflation-rate-june-2023>

<sup>13</sup> Becker's Payer Issues, "CVS Health's top 5 highest-paid executives," April 10, 2023, <https://www.beckerspayer.com/payer/cvs-healths-top-5-highest-paid-executives.html#:~:text=CVS%20CEO%20Karen%20Lynch%20was%20paid%20%2421.3%20million,2022%2C%20according%20to%20regulatory%20filings%20published%20April%207.>

<sup>14</sup> The Guardian, "US Inflation Rate Down to 3% in June, a two-year low, but prices remain high" July 12, 2023, <https://www.theguardian.com/business/2023/jul/12/us-inflation-rate-june-2023>

Rhode Islanders are continuing to feel the pain of post-pandemic inflation in all sectors. Housing prices continue to rise in both ownership and rental markets, which has resulted in an ongoing affordable housing challenge.<sup>15</sup> In fact, the State ranks 8<sup>th</sup> highest in the country for rent.<sup>16</sup> In 2020, the average rent for a 1-bedroom apartment was \$911, in 2023 that average increased to \$1,199.<sup>17</sup> Food costs in the State are 8.7% higher than the national average.<sup>18</sup> On average, the cost of health insurance in Rhode Island is \$7,903 per person.<sup>19</sup> In 2022, Rhode Island ranked 32<sup>nd</sup> in the nation in real GDP growth.<sup>20</sup> While inflation is driving up prices, Rhode Islander's saw only a \$36 increase in average weekly wages.<sup>21</sup> However, the CVS/Aetna CEO's salary increased by \$4 million between 2021 and 2022.<sup>22</sup> Despite Aetna's double digit profit increase in 2022, the company is now requesting that Rhode Islander's pay more than their fair share. A 6.6% increase during a year that the National Associations of Business Economics anticipate a more than 50% chance of economic downturn in 2024 is an untenable request for Rhode Islanders. Given the billions in profit Aetna took in in 2022, the increase in not necessary.

Although this Office understands the importance of the Rhode Island market being able to fund itself, we encourage the Office of the Health Insurance Commissioner to consider the wider market context when evaluating whether a 6.6% increase is in the public interest. The Attorney General strongly urges you to exercise your regulatory authority and discretion to reject Aetna's requested rate increase and instead decrease the large group markets by 2.6%.

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<sup>15</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>16</sup> Rent Data, "Rhode Island Fair Market Rent for 2023," <https://www.rentdata.org/states/rhode-island/2023>

<sup>17</sup> Rent Data, "Rhode Island Fair Market Rent for 2023," <https://www.rentdata.org/states/rhode-island/>

<sup>18</sup> Rent, "Cost of living in Rhode Island," <https://www.rent.com/blog/cost-of-living-in-rhode-island/#housing-costs>

<sup>19</sup> ValChoice, "The Cost of Health Insurance in Rhode Island," <https://www.valchoice.com/state-insurance-information/health/rhode-island/#:~:text=The%20average%20cost%20of%20health%20insurance%20in%20the,above%20the%20national%20average%20for%20health%20insurance%20coverage.>

<sup>20</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>21</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>22</sup> State, "Seven health insurance CEOs raked in a record \$283 million last years," May 12, 2022, (excel chart hyper linked in article), <https://www.statnews.com/2022/05/12/health-insurance-ceos-raked-in-record-pay-during-covid/>

Respectfully Submitted,

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By:

/s/ Sarah W. Rice

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August 1, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Aetna Life Insurance Company  
2024 Large Group Rate Filing  
SERFF# AETN-133595954

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, Inc's (L&E) actuarial analysis regarding the proposed 2024 Large Group Rate Filings for Aetna Life Insurance Company (ALIC, Aetna, or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating possible changes to the proposed rates.

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## FILING DESCRIPTION

1. ALIC is a for-profit organization that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for ALIC's commercial major medical insurance that will be offered in the large group market in Rhode Island beginning January 1, 2024.
2. ALIC submitted proposed rates on May 1, 2023, with a 6.6% average rate increase relative to the rates effective in the first quarter of 2023.
3. As is typical of the large group market, the Company provided a formula for producing rates. That formula considers the demographics of enrolled members, the particular benefits for that group, and the historical claims experience for that group. As a result, no individual group should be expected to receive the 6.6% average increase described in this filing.

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## PURPOSE AND SCOPE

Pursuant to R.I. Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action... to secure and insure compliance with the provisions of titles

23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island.”

The OAG has engaged L&E to perform an actuarial review of Aetna’s 2023 filing for the 2024 large group rates. This letter is to assist the OAG in evaluating possible changes to the proposed rates, if applicable. L&E’s observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E’s actuarial review.

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## SUMMARY OF RECEIVED DATA

The Company provided the rate manual used to determine the premiums for a large group, including the factor tables containing the variable amounts for plan designs, age, and industry. The filing also contains an actuarial memorandum and certification indicating the methodologies used to develop the proposed rates.

Aetna provided additional exhibits and information as requested during the rate review process.

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## L&E ANALYSIS

The items outlined below are key assumptions in the filing:

### 1. EXPERIENCE RATING METHODS

For groups with historical claims experience, a group-specific claim PMPM is calculated using 12 to 24 months of recent data. Historical experience is adjusted for changes to benefits, demographics, etc. The experience-based claims projection may be blended with a manual rate, based on the credibility considerations described below.

As is common in the industry, Aetna pools experience for high-cost claimants between groups, even for their fully credible groups. The pooling charges used to accomplish this were provided in “Response Letter 0607023.docx.”

### 2. MANUAL RATING METHODS

For groups with limited historical experience, premiums are based on a manual rate. This manual rate was developed based on claims from October 2021 through September 2022. Aetna has indicated that the lag times within their processes prevent them from using more recent data. We note this lag time appears to be substantially longer than most insurers.

Due to the lack of Rhode Island membership, the manual rate is based on Connecticut large group experience. A 5.5% reduction to the manual rate was applied and was based on a comparison of trended experience period claims with the current manual claim rate and new business quotes. No adjustments

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<sup>1</sup> This is based on Actuarial Standards of Practice No. 8

<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

were made to reflect the impact of Covid-19 in either the base period or the projection period.

As shown in Appendix A, page U-22, Aetna's rating manual permits an unreasonably large degree of underwriting discretion. For example, the "Miscellaneous Actuarial Factor" is permitted to vary from 0 to 5. That is, if the filed rate is \$500 PMPM, the rate manual permits the underwriter to modify that filed rate to anywhere from \$0 to \$2,500 PMPM. This premium range widens when other rating factors are considered. While Aetna has indicated that they have internal controls to prevent these from being used in an unfairly discriminatory manner, we note that Aetna's rating manual contains more underwriting discretion than is typically seen in typical large group rating manuals.

### 3. PROJECTION ASSUMPTIONS

Both a group's actual claims experience and, if applicable, the manual rate are adjusted to reflect changes in cost over time. Aetna assumes that claims increase by approximately 10.1% every 12 months. The initial filing contained no support for this assumption. In response to inquiries by both OHIC and OAG, Aetna provided historical information relevant to their trend assumptions.

Medical trends are generally divided into two categories: unit cost and utilization trends. Unit cost trends relate to changes in the contracted prices between insurers and providers. While Aetna's assumed unit cost trends exceed recent averages, we note that the current inflation environment makes such an increase possible.

Aetna is assuming a utilization trend of 4.7% and notes that the recent claims data has been favorable, reflecting conditions unique to the Covid-19 environment and are not expected to continue. They make several upward adjustments to the utilization trend. First, they [REDACTED]. Thus, they include a 0.5% adjustment due to economic pressure. Furthermore, they adjust all utilization up by 0.5% per year for the impact of gene therapies [REDACTED]. No support has been provided as to why this is likely to produce substantial increases to medical utilization between 2022 and 2024 or why this would produce new utilization without replacing existing therapies.

Even if we remove these two adjustments, there does not appear to be any rational relationship between the historical data provided and the trend assumptions Aetna has assumed. Additionally, we observe that Aetna's proposed trend assumption of 10.1% is substantially higher than ACA market trends over the last three years.

Given the above observations, we do not believe that rates based on this 10.1% annual trend assumption are actuarially sound and believe that a trend of 6.5% to 8.5% would be reasonable. We also note that the actuarial justification provided by the Company was not considered sufficient to fully assess the trend assumption.



#### 4. RETENTION

Page U-23 to U-26 of the rating manual contains the various retention components added to projected claims to develop the final large group premiums. They vary by type of coverage and group size and permit substantial modification due to underwriter discretion. Aetna is projecting that their 2024 administrative costs will be 3.0% above their filed 2023 levels and are driven by broad inflationary factors. Aetna quantified the changes in average administrative costs and stated that the 3.0% increase in administrative costs results in an overall rate increase of 0.1%.

The rates also contain an allowance for profit margin. Aetna has proposed a 4.0% profit margin in this filing, which is substantially higher than the 1.0% profit approved by the RI Commissioner in the previous year's filing.

Regarding the profit assumption in the filing, we note the following:

- The year-end 2022 RBC ratio is 489%. Aetna's aggregate target RBC for regulated subsidiaries is 550% of the Authorized Control Level (ACL) while targeting 400% ACL for ALIC and at least 300% ACL for all entities.
- In the event a subsidiary's capital and surplus levels has fallen or is expected to fall below its target level, Aetna will contribute capital to the entity. Aetna has a long history of providing the necessary capital to its operating subsidiaries to support business growth, and maintain an adequate surplus and sufficient liquidity.
- A 4.0% profit margin is higher than what is typically assumed in the large group market.

Due to the capital and surplus level of the Company and its affiliates, we do not think that an increase in profit from the previously approved 1.0% is necessary.

#### 5. CREDIBILITY BLENDING

Full credibility is assigned to the experience when it reflects at least 12,000 member months of data. For groups with less than this amount of data, the credibility factor is equal to the square root of the member months divided by this standard. This formula is an industry standard for determining partial credibility and appears reasonable. The results of this formula are on page U-23 of Appendix A.

In some cases, groups receiving their first renewal increase may be grouped into cohorts, with each cohort getting a distinct increase. The final rate is calculated by performing a weighted average of the projected manual rate and experience rate, where the experience is weighted based on the guidelines described above. L&E believes the credibility standard, and therefore the credibility percentage applied to each group's experience, is reasonable and appropriate.

## OBSERVATIONS

As noted above, L&E has the following observations regarding the key assumptions in the filing:

### 1. TREND:

The trend assumptions Aetna has assumed are higher than the historical data provided. Additionally, we observe that Aetna's proposed trend assumption of 10.1% is substantially higher than market-wide averages over the last three years and does not appear reasonable. We do not believe that rates based on this 10.1% annual trend assumption are actuarially sound and believe that a trend of 6.5% to 8.5% would be reasonable.

### 2. PROFIT:

Aetna has proposed a 4.0% profit margin in this filing, which is substantially higher than the 1.0% profit approved by the RI Commissioner in the previous year's filing. Due to the capital and surplus level of the Company and its affiliates, we do not think that an increase in profit from the previously approved 1.0% is necessary.

## IMPACT ON OVERALL RATE INCREASE

A breakdown of L&E's observations by rating component is provided below:

Component	Min	Max
<b>Aetna LG Proposal</b>	<b>+6.6%</b>	<b>+6.6%</b>
Trend	-6.2%	-2.8%
Profit	-3.0%	-
<b>Aetna LG Revised</b>	<b>-2.6%</b>	<b>+3.8%</b>

Please note that the impact on the rates is an estimate, and the actual impact may differ due to the Company's pricing model.

Sincerely,



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Robert Dorman, ASA, MAAA  
Vice President & Consulting Actuary  
Lewis & Ellis, Inc.



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Josh Hammerquist, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, Inc.



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Dave Dillon, FSA, MAAA, MS  
Senior Vice President & Principal  
Lewis & Ellis, Inc.

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## ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>2</sup>, promulgates Actuarial Standards of Practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct<sup>3</sup>, to observe the ASOPs of the ASB when practicing in the United States. ASOP #41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained below.

### IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

- Robert Dorman, ASA, MAAA, Vice President & Consulting Actuary.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 1, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 31, 2023.

### DISCLOSURES IN ACTUARIAL REPORTS

- The contents of this report are intended for the use of the Rhode Island Office of Attorney General. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring a suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis is financially and organizationally independent from ALIC. L&E is not aware of anything that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the OAG in evaluating possible changes to the proposed rates.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by ALIC for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for the items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.

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<sup>2</sup> The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

<sup>3</sup> These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- L&E is aware that there may be subsequent events which could have a material impact on our observations. These include but may not be limited to the ongoing Covid-19 virus.
- There are no other documents or files that accompany this report.

**ACTUARIAL OBSERVATIONS**

The actuarial observations of the report can be found in the body of this report.

**METHODS, PROCEDURES, ASSUMPTIONS, AND DATA**

The methods, procedures, assumptions, and data used by the actuaries can be found in the body of this report.

**ASSUMPTIONS OR METHODS PRESCRIBED BY LAW**

This report was prepared as prescribed by applicable law, statutes, regulations, and other legally binding authority.

**RESPONSIBILITY FOR ASSUMPTIONS AND METHODS**

The actuaries do not disclaim responsibility for material assumptions or methods.

**DEVIATION FROM THE GUIDANCE OF AN ASOP**

The actuaries have not deviated materially from the guidance set forth in the applicable ASOPs.