Statutory Accounting Principles (E) Working Group
Hearing Agenda
October 23, 2023

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2023-18: ASU 2016-19, Technical Corrections and Improvements
2. Ref #2023-19: ASU 2018-09, Codification Improvements
3. Ref #2023-20: ASU 2020-10, Codification Improvements
4. Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-18 (Wil)	**ASU 2016-19, Technical Corrections and Improvements**	**1 – Agenda Item**	**No Comments**	**IP – 23**

<u>Summary:</u>
In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

<u>Interested Parties' Comments:</u>
Interested parties have no comments on this item.

<u>Recommendation:</u>
NAIC staff recommends that the Working Group adopt the exposed revisions to adopt with modification *ASU 2016-19, Technical Corrections and Improvements* in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-19 (Wil)	**ASU 2018-09, Codification Improvements**	**2 – Agenda Item**	**Yes**	**IP – 24**

Summary:

In July 2018, FASB issued *ASU 2018-09, Codification Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Interested Parties' Comments:

Interested parties agree with the recommendation in this agenda item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to reject *ASU 2018-09 Codification Improvements* for statutory accounting in Appendix D as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-20 (Wil)	**ASU 2020-10, Codification Improvements**	**3 – Agenda Item**	**Yes**	**IP – 24**

Summary:

In October 2020, FASB issued *ASU 2020-10 Codification Improvements,* that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

Interested Parties' Comments:

Interested parties agree with the recommendation in this agenda item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-21 (Jake)	**Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102**	**4 – Agenda Item**	**No Comments Received**	**IP – 24**

Summary:
On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the ten-year effective period for that transition.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items received comments during the exposure period that are open for discussion.

1. Ref #2022-11: Collateral for Loans

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-11 (Robin)	**Collateral for Loans**	**5 – Agenda Item**	**Comments Received**	**IP – 1**

Summary:
During the Summer National Meeting, the Working Group re-exposed the March 2023 revisions to *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 21R—Other Admitted Assets* to allow industry more time to submit additional comments. This agenda item was drafted in July 2022 to address inconsistencies raised by state regulators regarding the guidance for collateral loans between SSAP No. 20 and SSAP No. 21R. Commenters at the Summer National Meeting advocated for the use of fair value to measure the value of the SSAP No. 48 and SSAP No 97 collateral, which is consistent with what is used for the measurement of the adequacy of most collateral.

Earlier exposures are summarized below:

- August 10, 2022 - exposed revisions to SSAP No. 21R that the invested assets pledged on collateral loans must qualify as admitted invested assets. The previously existing guidance in SSAP No. 21 detailed that collateral adequacy was measured using fair value and that inadequately collateralized loans are nonadmitted.

- December 13, 2022 - re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

© 2023 National Association of Insurance Commissioners

- March 22, 2023 - exposed revisions to SSAP No. 21R which clarify that the invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets. Industry comments noted concerns with having to obtain both an audit and verification of fair value for collateral from equity method investments. Additional revisions were exposed noting that for collateral from the equity of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, the comparison for admittance is between the net equity audited value of the pledged collateral to the collateral loan balance. In addition, a consistency revision to *SSAP No. 20—Nonadmitted Assets*, paragraph 4.b. was exposed.

Interested Parties' Comments:
The Working Group re-exposed this agenda item to allow additional time to submit additional comments regarding the measurement of collateral pledged from SSAP No. 48 and SSAP No. 97 entities, as requested by industry.

Interested parties extend our appreciation to the Working Group for the additional 30 days to consider exposure Reference No. 2022-11—*Collateral for Loans* (the "exposure") and for the opportunity to submit a new comment letter. After further consideration of the exposure, in light of the discussion at the August 13, 2023 Working Group meeting, interested parties continue to support the clarification that collateral pledged to secure a collateral loan must qualify as an admitted asset for the collateral loan itself to qualify as an admitted asset. Therefore, we continue to support the specific clarification that when the collateral pledged to secure a collateral loan would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, audited financial statements are required for the collateral (and thus the collateral loan) to qualify as an admitted asset.

Interested parties also agree there should not be optionality in the guidance; however, we believe that fair value, not audited equity value, is the most appropriate measure of the sufficiency of collateral. Fair value is the most representative measure of the value of assets that would be available to support policyholder liabilities in the event a reporting entity forecloses on the pledged collateral. Fair value also reflects the basis that a reporting entity would use to recognize the collateral in its financial statements in the event of foreclosure and the basis used to test collateral loans for impairment. As a result, interested parties propose the following revision to the exposure, which would eliminate the exposed change to the valuation basis used for the collateral test for these types of collateral loans (the underlined red text is the Working Group's currently exposed changes).

b. Nonadmitted Asset – In Accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. ~~For qualifying investments which are pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, such as joint ventures, partnerships and limited liability companies and investments that would qualify as SCAs if held directly, the proportionate audited equity valuation shall be used for the comparison for the adequacy of pledged collateral. If the collateral loan exceeds the audited equity valuation of these pledged investments, then the excess shall be nonadmitted.~~ To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Interested parties understand that some insurance regulators have expressed concerns about the uncertainty inherent in fair value measurements, particularly Level 2 and Level 3 measurements, due to the use of unobservable inputs and assumptions, and therefore, would like to see an additional level of third-party validation applied to the fair value measurement of the collateral securing these types of collateral loans. However, we note that these fair value measurements are subject to the same valuation standards per SSAP No. 100R – *Fair Value Measurements*, as all other investments carried at fair value, lower of cost or fair value, or for which the fair value is disclosed in the annual statements and audited financial statements, many of which are also Level 2 and Level 3 measurements.

© 2023 National Association of Insurance Commissioners

Therefore, interested parties believe it would be appropriate to continue to apply a consistent standard of valuation for all types of investments. Furthermore, interested parties note that the guidance in SSAP No. 21R, which requires the fair value of collateral to equal or exceed the carrying value of the collateral loan, represents an accounting assertion that is subject to audit by each reporting entity's independent auditor. As a result, the fair value measurements underpinning the collateral test are already subject to third-party validation by independent audit firms that either employ qualified valuation experts or would seek the expertise of qualified valuation experts when auditing the admissibility of a reporting entity's collateral loans. Interested parties believe this, along with the clarified requirement for reporting entities to obtain audited financial statements for underlying collateral that represents an interest in an entity within the scope of SSAP No. 48 or SSAP No. 97, provides an appropriate level of assurance and third-party validation that should sufficiently address regulators' concerns without the need to impose a greater cost burden on reporting entities in the form of additional third-party validation requirements..

In summary, interested parties support the proposed clarifications to SSAP No. 21R; however, we believe that fair value remains the best and most appropriate measure of the sufficiency of collateral pledged to secure collateral loans, and we believe the independent audit process provides the necessary level of assurance around these fair value measurements. As a result, we respectfully request that the Working Group revise the exposure to allow reporting entities to continue to use fair value consistently for all types of collateral loans and to continue to apply valuation frameworks and methodologies consistent with current practices and the guidance in SSAP No. 100R.

Recommendation:

NAIC staff recommends that the Working Group either expose or adopt both 1) the minor consistency revisions previously exposed in SSAP No. 20, and 2) the previously exposed and additional proposed shaded revisions to SSAP No. 21R as summarized and illustrated below. The Working Group could choose to either expose for a comment period ending on Nov. 15 or adopt the revisions.

- **Fair Value - Incorporate the revisions suggested by interested parties to SSAP No. 21R, paragraph 4b, regarding the use of fair value to measure the value of collateral. Using fair value is the long-standing way to measure the adequacy of collateral. The March 2023 exposure considered allowing a carve out from the existing guidance which would have allowed the use of audited book value to measure the adequacy of collateral was in response to prior industry comments.**

- **Audits – Consider adding a transition clarification to SSAP No. 21R, paragraph 22, regarding the timing of the audit requirement for qualifying assets pledged as collateral in the form of equity in SSAP No. 48 and SSAP No. 97 entities. NAIC staff has drafted language for consideration illustrated below. The proposed guidance addresses timing of 2023 audits and also that audits are required for the reporting years in which collateral is pledged.**

    - For these entities, an annual audit is used to verify that the pledged collateral qualifies as an admitted invested asset to be qualifying collateral. Although some companies were already obtaining audits for collateral from SSAP No. 48 or SSAP No. 97 entities, comments from industry have noted that some reporting entities were not obtaining audits. Therefore, questions regarding year-end 2023 application of the admitted invested asset guidance have arisen. That is, even if audits are required for 2023, for entities that have not previously obtained them, the 2023 audits will not be available until 2024. Which means that the fair value will be estimated at year end 2023, but the audits documenting that the collateral is qualifying will not be available until 2024.

SSAP No. 21R Proposed Revisions for Collateral Loans - note that shaded text in paragraph 4b and 22 reflect new proposed language for discussion. Other tracking reflects the current exposure.

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of a~~n~~ qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance

on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying Iinvestment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Effective Date and Transition

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4, requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of qualifying collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

Attachment 6 - Comment letters (25 pages)

<u>Any Other Matters</u>

- A recent liquidation order of a U.S. life insurer has raised questions about reporting of the unsettled reinsurance recoverable amounts. NAIC staff is drafting an Interpretation for Working Group consideration for exposure. If the exposure is ready for discussion prior to the October 23 call it will be presented. If it is not ready, it will be considered for a possible email vote to expose.

© 2023 National Association of Insurance Commissioners

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2016-19, Technical Corrections and Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In December 2016, FASB issued *ASU 2016-19, Technical Corrections and Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2016-19 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:
The table starting on page 3 summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting, and will impact *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
None.

Staff Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to adopt with modification ASU 2016-19, Technical Corrections and Improvements in SS*AP No. 5R—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, and *SSAP No. 102—Pensions* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

© 2023 National Association of Insurance Commissioners

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

Joint and Several Liabilities

5. Joint and several liability arrangements for which the total obligation amount under the arrangement is fixed[1] at the reporting dates shall be measured and reported as the sum of:

a. The amount the reporting entity agreed to pay on the basis of the agreements among its co-obligors, and

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. When an amount within management's estimate of the range of a loss appears to be a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the midpoint shall be used.

6. Although the total amount of the obligation of the entity and its co-obligors must be fixed at the reporting date to be within the scope of this statement, the amount that the reporting entity expects to pay on behalf of its co-obligors may be uncertain at the reporting date.

Proposed Revisions to SSAP No. 92—Postretirement Benefits Other Than Pensions

53. Plan assets are assets—usually stocks, bonds, and other investments (except certain insurance ~~contracts~~ annuities as noted in paragraph 57)—that have been segregated and restricted (usually in a trust) to be used for postretirement benefits. The amount of plan assets includes amounts contributed by the employer, and by plan participants for a contributory plan, and amounts earned from investing the contributions, less benefits, income taxes, and other expenses incurred. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

~~Insurance~~ Annuity Contracts

57. For purposes of this statement, an ~~insurance~~ annuity contract is defined as a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium; an ~~insurance~~ annuity contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. Benefits covered by ~~insurance~~ annuity contracts shall be excluded from the accumulated postretirement benefit obligation. ~~Insurance~~ Annuity contracts shall be excluded from plan assets.

58. Some ~~insurance~~ annuity contracts include participation rights (participating ~~insurance~~ annuity contracts) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. If the participating ~~insurance~~ annuity contract causes the employer to remain subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, that contract is not an ~~insurance~~ annuity contract for purposes of this statement, and the purchase of that contract does not constitute a settlement pursuant to paragraphs 83-88. Endorsement split-dollar life ~~insurance~~ annuity contracts do not settle a liability for a postretirement benefit obligation. For these contracts

[1] Examples of items within the scope of this guidance include debt arrangements, other contractual obligations, and settled judicial litigation and judicial rulings. Loss contingencies, guarantees, pension and other postretirement benefit obligations and taxes are excluded from this guidance and shall be accounted for under the statutory accounting provisions specific to those topics.

and other ~~insurance~~ annuity contracts that do not constitute settlement, reporting entities shall accrue a liability for the postretirement benefit arrangement in accordance with this statement.

59. The purchase price of a participating ~~insurance~~ annuity contract ordinarily is higher than the price of an equivalent contract without a participation right. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as a nonadmitted asset. In subsequent periods, the participation right shall be nonadmitted and measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

60. To the extent that ~~insurance~~ annuity contracts are purchased during the period to cover postretirement benefits attributed to service in the current period (such as life insurance benefits), the cost of those benefits shall be the cost of purchasing the coverage under the contracts, except as provided in paragraph 59 for the cost of a participation right. If all the postretirement benefits attributed to service in the current period are covered by nonparticipating ~~insurance~~ annuity contracts purchased during that period, the cost of the contracts determines the service cost component of net postretirement benefit cost for that period. Benefits attributed to current service in excess of benefits provided by nonparticipating ~~insurance~~ annuity contracts purchased during the current period shall be accounted for according to the provisions of this statement applicable to plans not involving ~~insurance~~ annuity contracts.

61. Other contracts with insurance companies may not meet the definition of an ~~insurance~~ annuity contract because the insurance company does not unconditionally undertake a legal obligation to provide specified benefits to specified individuals. Those contracts shall be accounted for as investments and measured at fair value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value. For some contracts, the best available estimate of fair value may be contract value.

62. The measurements of plan assets and benefit obligations required by this statement shall be as of the date of the employer's fiscal year-end statement of financial position. Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~ events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments).

Accounting for Settlement of a Postretirement Benefit Obligation

83. For purposes of this statement, a settlement is defined as a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a postretirement benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include making lump-sum cash payments to plan participants in exchange for their rights to receive specified postretirement benefits and purchasing long-term nonparticipating insurance ~~contracts~~ annuity for the accumulated postretirement benefit obligation for some or all of the plan participants.

87. If the purchase of a participating insurance ~~contract~~ annuity constitutes a settlement, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in income. As detailed in paragraph 58, the purchase of an endorsement split-dollar life insurance ~~contract~~ annuity does not settle a liability for a postretirement benefit obligation.

Accounting for a Plan Curtailment

93. A settlement and a curtailment may occur separately or together. If benefits expected to be paid in future periods are eliminated for some plan participants (for example, because a significant portion of the work force is

dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases nonparticipating insurance ~~contracts~~ annuity for the accumulated postretirement benefit obligation and continues to provide defined benefits for future service, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan termination occurs (that is, the obligation is settled and the plan ceases to exist) and the plan is not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the employees continue to work for the employer).

Proposed Revisions to SSAP No. 102—Pensions

Measurement of Plan Assets

45. The measurements of plan assets and benefit obligations shall be as of the date of the employer's fiscal year-end statement of financial position. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for ~~subsequent~~ events occurring between the most recent valuation date and the plan's year end (for example, employee service and benefit payments). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other unassigned funds (surplus) (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Annuity Contracts

50. An annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts ~~(participating annuity contracts)~~include participation rights (participating annuity contract) which provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating annuity contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this statement.

Proposed Revisions to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

SCOPE OF STATEMENT

1. Transfers of financial assets take many forms. Accounting for transfers in which the transferor has no continuing involvement with the transferred financial assets or with the transferee are generally straightforward. However, transfers of financial assets often occur in which the transferor has some continuing involvement either with the assets transferred or with the transferee. Examples of continuing involvement include, but are not limited to, servicing arrangements, recourse or guarantee arrangements, agreements to purchase or redeem transferred financial assets, options written or held, derivative financial instruments that are entered into contemporaneously with, or in contemplation of the transfer, arrangements to provide financial support, pledges of collateral, and the

transferor's beneficial interests in the transferred financial assets. Transfers of financial assets with continuing involvement raise issues about the circumstances under which the transfers should be considered as sales of all or part of the assets or as secured borrowings. An objective in accounting for transfers of financial assets is for each reporting entity that is a party to the transaction to recognize only assets it controls and liabilities it has incurred, to derecognize assets only when control has been surrendered, and to derecognize liabilities only when they have been extinguished. Sales and other transfers may frequently result in a disaggregation of financial assets and liabilities into components, which become separate assets and liabilities. The guidance in this statement also applies to transactions in which servicing assets are transferred with loans retained by the transferor.

Disclosures

24. Disclosures required by this statement may be reported in the aggregate for similar transfers if separate reporting of each transfer would not provide more useful information to financial statement users. A transferor shall disclose how similar transfers are aggregated. A transferor shall distinguish transfers that are accounted for as sales from transfers that are accounted for as secured borrowings. If specific disclosures are required for a particular form of a transferor's continuing involvement by other SSAPs, the transferor shall provide the information required in (a) through (c) with a cross-reference to the separate notes to financial statements so a financial statement user can understand the risks retained in the transfer. In determining whether to aggregate the disclosures for multiple transfers, the reporting entity shall consider quantitative and qualitative information about the characteristics of the transferred financial assets. For example, consideration should be given, but not limited, to the following:

a. The nature of the transferor's continuing involvement.

b. The types of financial assets transferred.

c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to adopt, with modification, *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting in SSAP Nos. 5R, 92, 102, and 103R as illustrated above.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/10-23-23/01 - 23-18 - ASU 2016-19 - Technical Corrections and Improvements.docx

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Balance Sheet—Offsetting	210-20	Amendment aligns the wording in the Example with paragraph 815-210-50-4D by replacing the term underlying risk with the term type of contract.	55-22	Statutory guidance does not include amended example problem. **This update is not applicable – no action required.**
Risks and Uncertainties—Overall	275-10	Amendment simplifies the Codification by removing the explanation of reasonably possible in paragraph 275-10-50-8 and replacing it with a link to the Master Glossary term reasonably possible. There are consequential amendments for paragraphs 275-10-50-6 and 275-10-55-9.	50-8	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual and the definition for 'reasonably possible' is properly included within the manual. **This update is not applicable – no action required.**
Troubled Debt Restructurings by Creditors & Debt—Troubled Debt Restructurings by Debtors	310-40 470-60	This amendment removes the definition from the Master Glossary and includes the definition in Scope and Scope Exceptions paragraphs 310-40-15-4A and 470-60-15-4A. Consequential amendments also remove links to the Master Glossary term from other Subtopics that are not related to troubled debt restructuring.	15-4A 15-4A	Master glossary is not utilized by the AP&P manual and the definition of debt is already included within the manual. **This update is not applicable – no action required.**
Intangibles—Goodwill and Other—Goodwill	350-20	Paragraph 350-20-45-3 provides guidance on the presentation of a goodwill impairment loss that is associated with discontinued operations. This amendment adds a	45-3	Statutory accounting does not provide separate guidance on goodwill impairments from discontinued operations, as such adding a guidance reference

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		reference to Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations, in that paragraph.		between *SSAP No. 24–Discontinued Operations and Extraordinary Items* and *SSAP No. 68–Business Combinations and Goodwill* is not considered necessary. **This update is not applicable – no action required.**
Intangibles—Goodwill and Other—Internal-Use Software	350-40	This amendment addresses stakeholder concern that the accounting for software licenses acquired for internal use following the adoption of the amendments in ASU 2015-05 is not clear because paragraph 350-40-25-16 was superseded, and no new guidance was added in its place. The new paragraphs provide transition guidance and clarify the Board's intent that an entity should apply the existing recognition and measurement requirements in GAAP for acquired intangible assets to a hosting arrangement that includes a license to software (as described in paragraphs 350-40-15-1 through 15-4C).	25-17 65-2	*SSAP No. 16R–Electronic Data Processing Equipment and Software* paragraph 12b already includes guidance for acquisitions which include both hosting and internal-use software components. **This update is not applicable – no action required.**
Plant, and Equipment—Real Estate Sales	360-20	When EITF Issue 87-9 was codified in Subtopic 360-20, the final paragraph in that EITF Issue that contained the reversal of the initial position of the Task Force was not codified. This amendment corrects the Accounting	55-3	*SSAP No. 40R–Real Estate Investments* directs readers to apply FASB guidance for real estate sales. As such, no changes are required to update the AP&P Manual for this change.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		Standards Codification to reflect the final conclusions of the EITF on that Issue.		**This update is not applicable – no action required.**
Liabilities—Obligations Resulting from Joint and Several Liability Arrangements	405-40	This amendment adds an explanatory paragraph after paragraph 405-40-15- 1 to clarify that for the total amount of an obligation under a joint and several liability arrangement to be considered fixed at the reporting date, the amount that must be fixed on the obligation resulting from the joint and several liability arrangement is not the amount that is the entity's portion of the obligation, but is the obligation in its entirety.	15-2	Clarifying amendment to joint and several liabilities is considered applicable for statutory accounting. **Staff recommends adoption of the amendment with modification to SSAP No. 5R, as detailed above.**
Guarantees—Overall	460-10	This amendment clarifies the wording in paragraph 460-10-50-1 so that its scope also applies to paragraph 460-10-50-4. The unclear wording along with the structure of the heading levels in paragraphs 460-10-50-1 through 50-4 could be interpreted as if the disclosure guidance in paragraph 460-10-50-1 only applies to paragraphs 460-10-50-2 through 50-3 and those guarantees outside the scope of paragraph 460-10-50-4.	50-1	Clarification to *SSAP No. 5R* is not applicable as the changes are specific to FASB paragraph structures. **This update is not applicable – no action required.**
Equity—Overall	505-10 505-30 505-50 505-60	This amendment simplifies the guidance by removing the terms public and nonpublic from these paragraphs and stating that the guidance applies to	15-1 15-1 15-1 15-1	Statutory accounting does not distinguish between public and nonpublic companies.

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		all entities that meet the stated characteristics.		**This update is not applicable – no action required.**
Compensation—Retirement Benefits—Defined Benefit Plans—Pension & Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement & Financial Services—Insurance—Policyholder Dividends & Financial Services—Insurance—Business Combinations	715-30 715-60 944-50 944-805	These amendments simplify the codifications by using consistent terminology related to participating insurance. This amendment uses the term participating insurance throughout the related guidance and removes the duplicate terms participating insurance contract, participating insurance contracts, and participating contract from the Master Glossary.	25-7 35-53 35-59 35-79 35-88 55-153 35-115 35-156 25-2 05-10	Staff noted that *SSAP No. 102* uses the term 'annuity contract' instead of 'insurance contract' as annuity contracts are codified within model laws. Staff recommends that SSAP 92 be updated to also utilize the terminology "annuity contracts". **Staff recommend adoption of this amendment with modification to SSAP No. 92, as detailed above. Staff also recommend some minor editorial changes to SSAP No. 102, detailed above.**
Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement	715-60	This amendment removes the reference to securitization of trade receivables or loan receivables in the Master Glossary. When the creditor's (transferor's) transfer satisfies the requirements for sale accounting, the creditor would have a new asset and its beneficial interests in the receivables would meet the definition of a debt security in accordance with paragraph 860-20-35-2.	35-107 35-112	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Business Combinations—Overall	805-10	This amendment replaces the reference to the guidance in Section 958-810- 25 on not-for-profit entities—consolidation—recognition in paragraph 805-10-15-4(e) to the more specific reference of paragraph 958-810-25-4. Paragraph 958-810-25-4 describes control by other means and contains criteria for consolidation. In addition, the phrase as permitted or required by is replaced by the word described in paragraph 805-10-15-4(e) to be less confusing to the users of the Accounting Standards Codification.	15-4	Statutory accounting does not have separate guidance for nonprofit and for-profit companies. Additionally, business combination guidance related to Variable Interest Entities has not yet been considered for statutory accounting purposes. **This update is not applicable – no action required.**
Derivatives and Hedging—Embedded Derivatives	815-15	This amendment simplifies the wording in paragraph 815-15-55-216 and adds a reference to Subtopic 815-10, Derivatives and Hedging—Overall, which contains guidance on the normal purchases and normal sales exception. The added reference better enables users to find this guidance.	55-216	The amended implementation example is not included in statutory accounting guidance. **This update is not applicable – no action required.**
Derivatives and Hedging—Hedging—General	815-20	This amendment removes the words “all of” from. When this guidance was codified by FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities, the words “all of” were added, which appears to make it a list of requirements instead of circumstances to consider.	55-24 55-44 55-44A	The amended implementation guidance was not adopted for statutory accounting purposes. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Fair Value Measurement—Overall	820-10	This amendment changes the term ‘valuation technique’ to ‘valuation approach’ for clarity. The Master Glossary also defines each of the approaches as a technique, which is misleading. Topic 820 prescribes that, at all times, the more detailed technique should be disclosed rather than the overall approach.	35-16BB 35-24A 50-2 55-35 55-36 55-37 55-38 65-11	Terminology correction is not necessary as the AP&P Manual already includes the delineation between approaches and techniques within *SSAP 100R–Fair Value*. **This update is not applicable – no action required.**
Fair Value Measurement—Overall & Financial Services—Insurance—Insurance Activities & Financial Services—Insurance—Claim Costs and Liabilities for Future Policy Benefits & Financial Services Insurance—Balance Sheet & Financial Services—Insurance—Receivables & Financial Services—Insurance—Revenue Recognition	825-10 944-20 944-40 944-210 944-310 944-605 944-805 944-825	This amendment replaces ‘reinsurance receivable’ with ‘reinsurance recoverable’. This change resolves inconsistencies within the Accounting Standards Codification where in some instances the term reinsurance receivable is used, while in other instances the term reinsurance recoverable is used.	825-10-50-22 944-20-50-5 944-40-25-34 50-3 50-4C 50-9 55-6 944-210-55-1 944-310-05-1 05-2 25-2 35-4 45-5 45-6 50-2	Terminology correction is not necessary as the AP&P Manual already uses the terminology ‘reinsurance recoverable’. All other miscellaneous changes made by the amendment were made to sections not adopted for statutory accounting purposes. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
& Financial Services—Insurance—Business Combinations & Financial Services—Insurance—Financial Instruments			944-605- 25-22 25-23 35-12 55-1 55-11 55-12 55-14 55-15 944-805- 30-1 944-825- 50-1 50-1B	
Financial Instruments—Registration Payment Arrangements	825-20	Registration payment arrangement is not a Master Glossary term, but it is defined in paragraph 825-20-15-3 and is referenced in multiple places within the Accounting Standards Codification. To avoid any confusion and maintain consistency with the definition of registration payment arrangement, this amendment defines the term in the Master Glossary and supersedes paragraph 825-20-15-3.	15-2 15-3	Master glossary is not utilized by the Accounting Practices and Procedures (AP&P) Manual. **This update is not applicable – no action required.**
Reorganizations—Income Taxes	825-740	This amendment makes the wording in paragraph 852-740-45-3 consistent with that in paragraph 852-740-55-2. The term ‘ordinarily’ used in FASB	45-3	The amended wording change affects guidance which was not adopted for statutory accounting purposes.

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
		Statement No. 109, Accounting for Income Taxes, was related to one exception for enterprises that had previously adopted FASB Statement No. 96, Accounting for Income Taxes. That exception is no longer relevant, and, therefore, the term ordinarily should be removed.		**This update is not applicable – no action required.**
Transfers and Servicing—Sales of Financial Assets	860-20	This amendment adds language from paragraph 16D of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to clarify the disclosures that are required when other Topics require disclosures about the transferor's continuing involvement.	50-2A 55-41	**Staff recommends adoption with modification to SSAP No. 103R, as detailed above.**
Transfers and Servicing—Servicing Assets and Liabilities	860-50	This amendment includes guidance from paragraph .08(h) of *AICPA Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others*, on the allocation of the carrying amount of loans that have been retained, which was omitted from the Accounting Standards Codification. This amendment also includes transactions in which a transferor transfers servicing rights and retains the loans to the scope in paragraph 860-50-15-3.	15-3 40-6	**Staff recommends adoption with modification to SSAP No. 103R, as detailed above.**

Topic	**Codification**	**Abbreviated Summary of Change**	**Related Paragraphs**	**SAP Status/Recommendation**
Activities—Oil and Gas—Inventory	932-330	This amendment clarifies that energy trading contracts are not derivatives in accordance with the guidance in Topic 815. The modifying portion of the original sentence did not have the correct placement.	35-1	**This update is not applicable – no action required.**
Financial Services—Broker and Dealers—Other Assets and Deferred Costs	940-340	This amendment removes the term 'ABC Agreement' from both the Master Glossary and within the Accounting Standards Codification as the New York Stock Exchange (NYSE) no longer sells seats on the exchange.	25-2	Terminology correction is not necessary as the AP&P Manual does not utilize the Master Glossary or provide reference to 'ABC Agreements' **This update is not applicable – no action required.**
Financial Services—Insurance—Separate Accounts	944-80	Separate accounts with guaranteed investment returns do not qualify for separate account accounting because they do not pass all investment performance on to the policyholder. Therefore, they must be included in the general account of the company and accounted for like other similar assets held by the company as prescribed in paragraph 944-80-25-4. This amendment corrects the reference in paragraph 944-80-35-1 to reflect that change.	35-1	**This update is not applicable – no action required.**
Financial Services—Investment Companies—Presentation of Financial Statements	946-205	This amendment adds a reference SEC Regulation S-X, Part 210, Rule 12-12 in the last sentence to footnote (a) in paragraph 946-205-45-1.	45-11	SEC guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**

© 2023 National Association of Insurance Commissioners

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Financial Services—Investment Companies—Balance Sheet	946-210	The amendment provides technical corrections to reflect changes made when investment companies guidance was codified from the AICPA Audit and Accounting Guide, Investment Companies (2008).	50-7 50-9 55-1	Investment company guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Health Care Entities—Income Statement	954-225	This amendment simplifies the Accounting Standards Codification by removing incomplete measurement guidance from paragraph 954-225-45-2 in the Other Presentation Matters Section and providing a reference to the complete measurement guidance. Additionally, amendment also includes a cross-reference to paragraph 220-10-45-10A, which lists some examples of items that are required to be reported in or reclassified from other comprehensive income.	45-2 45-7	Amended GAAP guidance was later superseded by ASU 2017-19, which has already been addressed by the Working Group. **This update is not applicable – no action required.**
Health Care Entities—Consolidation	954-810	To aid the user in locating presentation and disclosure requirements for noncontrolling interests, this amendment adds FASB references to Sections 958-810-45 and 958-810-50 for other presentation matters and disclosure.	45-3B	**This update is not applicable – no action required.**
Not-for-Profit Entities—Presentation of Financial Statements	958-205	ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, added incorrectly the words “that contain no purpose restrictions” to	50-1B	**This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		paragraph 958-205-50-1B(e)(3). This amendment removes this phrase.		
Not-for-Profit Entities—Revenue Recognition	958-605	This amendment adds language clarifying the scope of Subtopic 958-605 and provides a link to the Master Glossary term affiliate and corrects a minor wording error in a table.	15-13 55-8	**This update is not applicable – no action required.**
Not-for-Profit Entities—Consolidation	958-810	This amendment adds disclosure and presentation clarifications for Not-For-Profit Entities.	45-1	**This update is not applicable – no action required.**
Plan Accounting—Health and Welfare Benefit Plans—Plan Benefit Obligations	965-30	This amendment clarifies that the subsequent events to be addressed in the rollforward of the benefits obligation valuation are those occurring between the most recent valuation date and the plan's year-end.	35-6	**Staff recommends adopting the clarification for *SSAP No. 92* and *SSAP No. 102* as detailed above.**

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2018-09, Codification Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In July 2018, FASB issued *ASU 2018-09, Codification Improvements,* as part of a standing project on its agenda to address suggestions received from stakeholders on FASB Codifications and to make other incremental improvements to U.S. GAAP. This perpetual project facilitates FASB Codification updates for technical corrections, clarifications, and other minor improvements. The changes made by ASU 2018-09 included minor clarifications, corrections, addition of codification references, guidance relocations, and removal of redundant, outdated, or superseded guidance.

Existing Authoritative Literature:
The table starting on page two summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
None.

Staff Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to reject *ASU 2018-09 Codification Improvements* for statutory accounting on Appendix D as not applicable to statutory accounting.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-09 Codification Improvements* as not applicable for statutory accounting.

© 2023 National Association of Insurance Commissioners

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Reporting Comprehensive Income—Overall	220-10	This amendment clarifies the guidance in paragraph 220-10-45-10B by removing the generic phrase taxes not payable in cash, adds guidance that is specific to certain quasi reorganizations, and adds references to applicable guidance for each example that does not qualify as an item of comprehensive income.	45-10B	**This update is not applicable – no action required.**
Earnings Per Share—Overall	260-10	Correct reference to Earnings per Share example to specifically note that Example 6 illustrates the two-class method. Additional wording clarifications are made within Example 6 as well.	45-60B 55-62	**This update is not applicable – no action required.**
Investments—Debt and Equity Securities—Overall	320-10	These amendments simplify the Codification by removing redundant disclosure requirements in paragraphs 320-10-50-1A and 320-10-50-13. These amendments supersede paragraph 320-10-50-13 and add clarification to the disclosure requirements in paragraph 320-10-50-1A for summarized financial information.	50-1A 50-13	Summarized financial information in relation to debt and equity securities are not addressed within statutory accounting. **This update is not applicable – no action required.**
Debt—Modifications and Extinguishments	470-50	The amendment adds guidance to clarify that when the fair value option has been elected on debt that is extinguished, the net carrying amount	40-2A	*FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No.*

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		of the extinguished debt equals its fair value at the reacquisition date. Additionally, the cumulative amounts of gains or losses in other comprehensive income that resulted from changes in instrument-specific credit risk must be included in the measurement of gain or loss presented in net income for the extinguished debt.		*115* was rejected for statutory accounting purposes. As such no changes are recommended. **This update is not applicable – no action required.**
Distinguishing Liabilities from Equity—Overall	480-10	Eliminates guidance conflict between codification paragraph 25-15 and paragraphs 55-55 and 55-59.	55-55 55-59	*SSAP No. 104R–Share-Based Payments* does not contain the amended language. As such no changes are recommended. **This update is not applicable – no action required.**
Compensation—Stock Compensation—Income Taxes	718-740	The amendment clarifies that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the amount of the tax deduction is determined, which typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards.	35-2	The relevant language was also included in ASU 2018-07 and was previously adopted with Agenda Item 2018-35. As such, no changes to the relevant SSAPs are required, **This update is not applicable – no action required.**
Other Expenses—Advertising Costs & Financial Services—Insurance—Acquisition Costs	720-35 944-30	The objective of this amendment is to align the scope of the guidance in 720-35 with the source guidance in SOP 93-7 by removing the references in the guidance and heading to 'direct response advertising'.	15-2 15-3 25-1A 25-1A 25-1DD	Direct-response advertising and related advertising specific guidance are not addressed within statutory accounting. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		The amendment also relocates and minorly amends the guidance in paragraph 720-35-15-5 about direct-response advertising costs to paragraph 944-30-25-1DD. Direct response advertising costs can only be capitalized for insurance contracts within the scope of Topic 944 in certain circumstances.		
Income Taxes	740-10	This amendment makes corrections to Income Tax guidance on intra-entity transfers of inventory as the guidance in paragraph 25-55 contradicts paragraph 25-3(e). Additionally, a reference to intra-entity transfers was removed from example 26 as it describes a null set of transactions.	25-53 25-54 25-55 55-168 55-203 65-7	The ramification of intra-entity transfers of inventory on income tax is not addressed in statutory accounting. **This update is not applicable – no action required.**
Business Combinations—Income Taxes	805-740	The amendment updates paragraph 25-13 that provides three methods for allocating the consolidated tax provision to an acquired entity after acquisition as it is no longer consistent with the rest of Topic 740 after the issuance of EITF Issue No. 86-9.	25-13	The update is not applicable as GAAP guidance for business combinations has not yet been addressed for statutory accounting at this time, as such no changes are recommended. **This update is not applicable – no action required.**
Derivatives and Hedging—Overall	815-10	The amendment supersedes paragraph 45-4 and amends paragraph 45-5, with a link to transition paragraph 105-10-65-5. This change was made as the guidance in paragraph 45-4 is potentially misleading because it can	45-4 45-5	*SSAP No. 86–Derivatives* does not include the superseded guidance. As such, no changes are recommended.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		be interpreted as conflicting with the guidance in paragraph 45-5 and because it can be interpreted to mean that derivatives may only be offset when all four of the conditions in paragraph 210-20-45-1 are met.		**This update is not applicable – no action required.**
Derivatives and Hedging—Embedded Derivatives	815-15	The amendment clarifies a generic subtopic reference by replacing it with the actual FASB codification.	25-1	**This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	The amendment clarifies items (a) and (b) with FASB codification 820-10-35-16D were not intended to substantively change how GAAP is applied. However, it is possible that they may result in a change to existing practice for some entities; therefore, transition guidance has been provided.	35-16D	As the original guidance being clarified originates from *ASU 2011-04–Fair Value Measurement*, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	When initially drafted ASU 2011-04 was intended to exclude nonfinancial derivatives from the portfolio exception. The amendments revise paragraphs 820-10-35-18D through 35-18F and 820-10-35- 18H through 35-18L to include not only financial assets and financial liabilities, but also portfolios of financial instruments and nonfinancial instruments accounted for as derivatives in accordance with Topic 815.	35-18D thru 18L	As the original guidance being clarified originates from ASU 2011-04, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment replaces an indefinite deferral in transition paragraph 820-	50-2 65-9	As the original guidance being clarified originates from ASU

© 2023 National Association of Insurance Commissioners

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		10-65-9 from *ASU 2013-09, Fair Value Measurement,* with a disclosure exemption in paragraph 820-10-50-2(bbb). Amendment also eliminates transition guidance in paragraph 65-9.		2013-09, which has not yet been addressed for statutory accounting, no changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment changes the term 'build-up methodology' to build-up approach' for clarity. As indicated in the guidance, a build-up methodology is a subset of a valuation technique, whereas the build-up approach is a method of applying the discount rate adjustment technique.	55-11 55-33	Neither the build-up approach nor build-up method are contained addressed by statutory accounting. No changes are recommended. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	Due to an oversight, when *ASU 2016-01–Financial Instruments* amended Topic 825, a corresponding amendment was not made to Topic 820 superseding the requirement to disclose information on the methods and assumptions used to measure fair value for those financial Instruments. This amendment conforms the requirements in Topic 820 with the amendments made to Topic 825 so that the disclosure information is not required, which is consistent with the Board's intent in the amendments in Update 2016-01.	50-2E 65-4	The amendment corrects changes made by *ASU 2016-01–Financial Instruments*, which was rejected for statutory accounting. **This update is not applicable – no action required.**
Fair Value Measurement—Overall	820-10	This amendment corrects the dates used in Examples 9 to properly	55-100	The amended example is not included in statutory accounting

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		conform to the guidance provided in 820-10-50-2.		guidance. No changes are recommended. **This update is not applicable – no action required.**
Financial Services—Depository and Lending—Balance Sheet	942-210	This amendment simplifies the Codification by removing the paraphrased guidance from paragraph 942-210-45-3 so that the industry Topic guidance refers to the full guidance in Section 210-20-45.	45-3	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Depository and Lending—Equity	942-505	This amendment clarifies the requirements for disclosing information on regulatory capital for depository institutions. The amendment is necessary because of recent changes in the measures of regulatory capital in Basel III, with which depository institutions must comply (for example, the newly defined measure of Common Equity Tier 1).	50-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Insurance—Acquisition Costs	944-30	This amendment restores guidance about an accounting policy election to paragraph 944-30-25-1A that was originally included in the transition guidance in ASU 2010-26. This election was automatically removed with the transition guidance as the effective date had been met for all entities, however it was noted that this election should be maintained in the	25-1A	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		guidance for historical purposes to ensure the appropriateness of the election was not called into question at a future date.		
Financial Services—Insurance—Receivables & Property, Plant, and Equipment	944-310 944-360	This amendment includes a correct to these paragraphs as the original references should have been superseded with the adoption of ASU 2016-01and replaced with references to transition guidance.	45-1 45-2 50-1 45-3 45-4 50-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Financial Services—Insurance—Property, Plant, and Equipment	944-360	This amendment adds references to the applicable guidance for determining the subsequent measurement of real estate acquired by insurance companies in settling certain claims.	35-1	Financial Services guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Not-for-Profit Entities—Other Expenses	958-720	This amendment improves the description of the items in paragraph 958-720-45-15 that would be considered gains and losses for a not-for-profit entity. This amendment also changes the term for-profit entity to the term business entity in Subtopic 958-720.	45-15	Not-for-profit guidance is not applicable for statutory accounting. **This update is not applicable – no action required.**
Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements & Property, Plant, and Equipment	962-205 962-360	To make the Topic structure consistent with related Topics and the guidance easier to find, this amendment moves the property, plant, and equipment guidance in 962-205 to Subtopic 962-360.	45-5 35-1	**This update is not applicable – no action required.**

© 2023 National Association of Insurance Commissioners

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Plan Accounting—Defined Contribution Pension Plans—Investments—Other	962-325	This amendment removes the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment would not have a readily determinable fair value and should always use the net asset value per share practical expedient.	55-17	The amended example is not included in *SSAP No. 102–Pensions*. **This update is not applicable – no action required.**

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2020-10, Codification Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In October 2020, FASB issued *ASU 2020-10 Codification Improvements,* that improve the consistency of the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The changes made by the ASU either move disclosure guidance to the Disclosure Section of the codification or add codification references to direct readers to the disclosure section, and this ASU does not provide any relevant new guidance.

Existing Authoritative Literature:
All changes detailed in ASU 2020-10 were either editorial changes that have no bearing on the presentation of the *Accounting Practices and Procedures Manual* or minor wording changes to guidance that has not been adopted for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
None.

Staff Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable to statutory accounting.

Staff Review Completed by:
NAIC Staff – William Oden, July 2023

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable for statutory accounting.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/10-23-23/03 - 23-20 - ASU 2020-10 - Codification Improvements.docx

© 2023 National Association of Insurance Commissioners

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
On December 18, 2012, the Statutory Accounting Principles (E) Working Group adopted *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, which replaced *SSAP No. 14—Postretirement Benefits Other Than Pensions* and *SSAP No. 89—Pensions*. The adopted SSAPs included transition guidance that expired after 10 years. This agenda item intends to remove the unneeded transition guidance from SSAP No. 92 and SSAP No. 102.

Existing Authoritative Literature:
The current guidance is in *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions*, and the transition guidance recommended for deletion is included in the Staff Recommendation section.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS):

Staff Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the ten-year effective period for that transition.

SSAP No. 92—Postretirement Benefits Other Than Pensions

~~107. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 37), and remaining transition assets or obligations (collectively referred to as "unrecognized items") from prior application of SSAP No. 14 that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the ending balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 108.b.). The offset to unassigned funds is reported separately as an "Aggregate Write-In for Other Than Invested Assets" or as an "Aggregate Write-In for Other Liabilities." After recognition, the full unfunded or overfunded status or the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

~~108. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 107, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

a. ~~Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 107, on an individual plan basis, as of January 1, 2013.~~

b. ~~Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 07, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~

i. ~~Ten percent of the calculated surplus impact as of the transition date; and~~

ii. ~~Amortization of the "unrecognized items" (defined in paragraph 107) into net periodic benefit cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of both components in paragraph 108.b.) is subsequently determined to be less than what is amortized for the year (paragraph 108.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.)~~

~~109. If the surplus deferral (paragraph 108.b.) is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the "transition liability") on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 108.b. Reporting entities that elect the transition option in paragraph 108.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

~~110. Reporting entities that elect the transition option in paragraph 108.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 108.b. is not intended (on a net basis for each plan) to result in more favorable subsequent surplus OPEB positions when there are remaining unrecognized liabilities as a result of the reporting entity's initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting this statement, but in no instance should changes (on a net basis for each plan) attributed to OPEB plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity's initial election for surplus deferral. (The guidance in this paragraph was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.)~~

~~111. The transition guidance in paragraphs 107-110 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the accumulated benefit obligation, or the impact of subsequent plan amendments.~~

© 2023 National Association of Insurance Commissioners

112. Reporting entities electing to apply the transition guidance in paragraph 108.b. must disclose the full transition surplus impact calculated from applying paragraph 107 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under paragraph 107 and the annual amortization amount of the "unrecognized items" into net periodic benefit cost. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.

113. The requirement to measure plan assets and benefit obligations as of the date of the reporting entity's financial statement year-end is effective for financial statement years beginning January 1, 2014. (The measurement date change will be initially reflected in the December 31, 2014, financial statements.)

114. In order to transition to a fiscal year-end measurement date, the reporting entity shall remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. The reporting entity shall use those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied.

115. The reporting entity shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. This would result with the following:

a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus). That is, the pretax amount recognized as an adjustment to unassigned funds (surplus) is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.

b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to unassigned funds (surplus). This provision prohibits a reporting entity from early application of the measurement date provisions when the reporting entity has issued financial statements for the prior year without recognition of such a settlement or curtailment.

c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus) for the fiscal year that the measurement date provisions are applied.

116. Earlier application of the recognition or measurement date provisions is encouraged, however, early applications must be for all of the reporting entity's benefit plans. If early application is elected, the transition date shall reflect the January 1st of the year in which this standard is initially applied. Retrospective application is not permitted.

SSAP No. 102—Pensions

92. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 11), and remaining transition assets or obligations from prior application of SSAP No. 89 (collectively referred to as "unrecognized items") that have not yet been included in net periodic benefit cost as of December 31, 2012 shall be recognized as components of the balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 93.b.). The offset to unassigned funds is reported separately as an "Aggregate Write-In for Other-Than-Invested Assets" or as an "Aggregate Write-

© 2023 National Association of Insurance Commissioners

~~In for Other Liabilities." After recognition, the full unfunded or overfunded status of the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.~~

~~93. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 92, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the transition surplus impact:~~

~~a. Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 92, on an individual plan basis, as of January 1, 2013.~~

~~b. Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 92, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:~~

~~i. Ten percent of the calculated surplus impact as of the transition date;~~

~~ii. Amortization of the "unrecognized items" (defined in paragraph 92) into net periodic pension cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds (surplus);~~

~~iii. Amount necessary to establish a total liability that is equal to any unfunded accumulated benefit obligation (the accumulated benefit obligation less the fair value of plan assets).~~

~~94. If the surplus deferral (paragraph 93.b.) is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the "transition liability") on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 93.b. Reporting entities that elect the transition option in paragraph 93.b. are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date.~~

~~95. Reporting entities that elect the transition option in paragraph 93.b. must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) The transition guidance in paragraph 93.b. is not intended (on a net basis for each plan) to result in more favorable, subsequent surplus pension positions when there are remaining unrecognized liabilities as a result of the reporting entity's initial election for surplus deferral. Therefore, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The transition guidance was to provide surplus relief from the immediate surplus impact from adopting SSAP No. 102, but in no instance should changes (on a net basis for each plan) attributed to pension plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities~~

~~remaining as a result of the reporting entity's initial election for surplus deferral. The guidance in this paragraph was originally contained within INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102 and was effective December 15, 2013.~~

~~96. The transition guidance in paragraphs 92-95 is specific to the transition surplus impact from initially applying this statement on January 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation, or the impact of subsequent plan amendments.~~

~~97. Reporting entities electing to apply the transition guidance in paragraph 93.b. must disclose the full transition surplus impact calculated from applying paragraph 92 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial "transition liability" calculated under paragraph 92, the annual amortization amount of the "unrecognized items" into net periodic pension cost, the amount of the unfunded accumulated benefit obligation, and the remaining unrecognized transition impact. This disclosure shall include a schedule of the entity's anticipated recognition of the remaining surplus impact over the transition period.~~

~~EXHIBIT A - IMPLEMENTATION GUIDE~~

~~*Note: After transition, new "unrecognized" amounts will be reflected in the year-end funded status, but not yet reflected in unassigned funds. Therefore, additional entries will be needed at the end of each year to recognize these new "unrecognized" amounts in unassigned funds. (An example includes gains and losses that will be included in unassigned funds (surplus), but not recognized in net periodic pension cost if they do not exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets.) The entries in the implementation guide focus on the transition impact, and subsequent entries for "unrecognized" items have not been included within the illustrations.*~~

~~**Transition Implementation**~~

~~**1. Overfunded Plan with Prepaid Benefit Cost**~~

~~*Consideration of contributions or tax effects are not reflected in this example.*~~

~~**Example 1**~~	~~**Dec. 31, 2012**~~	~~**Jan. 1, 2013**~~
~~Accumulated Benefit Obligation~~	~~$(6,240)~~	~~$(6,240)~~
~~Plus: Non-Vested Liability~~	~~(100)*~~	~~(100)~~
~~Total Accumulated Benefit Obligation~~	~~$(6,340)~~	~~$(6,340)~~
~~Projected Benefit Obligation~~	~~$(6,437)~~	~~$(6,437)~~
~~Plus: Non-Vested Liability~~	~~(100)~~	~~(100)~~
~~Total PBO~~	~~$(6,537)~~	~~$(6,537)~~
~~Plan Assets at Fair Value~~	~~$9,268~~	~~$9,268~~
~~Funded Status~~	~~$2,731~~	~~$2,731~~
~~Transition Obligation / (Asset)~~	~~$36~~	
~~Prior Service Cost~~	~~214~~	
~~Prior Service Cost (Non-Vested)~~	~~100~~	
~~Unrecognized Losses / (Gains)~~	~~2,465~~	
~~Total Unrecognized Items~~	~~$2,815~~	–
~~Net Overfunded Plan Asset / (Liability for Benefits)~~	~~$5,546~~	~~$2,731~~

~~*The amount shown for December 31, 2012 reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.~~

~~Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.~~

~~1a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"~~

~~1. Unassigned Funds – Transition Obligation 36~~
~~Unassigned Funds – Prior Service Cost 214~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 100~~
~~Unassigned Funds – Unrecognized Losses 2,465~~
~~Overfunded Plan Asset 2,815~~
~~*(Aggregate Write-Ins for Other-Than-Invested Assets)*~~

~~*For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing prepaid with an offset to unassigned funds.*~~

~~2. Change in Nonadmitted - Overfunded Plan Asset 2,815~~
~~*(Aggregate Write-Ins for Other-Than-Invested Assets)*~~
~~Unassigned Funds 2,815~~

~~*This entry illustrates the impact to the "change in nonadmitted" as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition.*~~

~~1b. December 31, 2013 – Recognition of Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~*(Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. As, this illustration is in an overfunded status, there is no surplus deferral. Recognition of net periodic cost, including amortization of the "unrecognized items" will occur each year regardless if surplus deferral is elected.)*~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~550~~
~~Interest Cost~~	~~150~~
~~Expected Return on Plan Assets~~	~~(250)~~
~~*Total*~~	~~*450*~~
~~Amortization of:~~	
~~o Transition Obligation~~	~~7.2~~
~~o Prior Service Cost~~	~~42.8~~
~~o Prior Service Cost (nonvested)~~	~~20~~
~~o Unrecognized Losses~~	~~493~~

Total	*563*
Total Net Periodic Pension Cost	**1,013**

1. Net Periodic Pension Cost 1,013
   Prepaid Benefit Cost 1,013
   (Aggregate Write-Ins for Other-Than-Invested Assets)

This entry recognizes the periodic pension cost with an offset to the prepaid pension asset. (A prepaid benefit cost is created when cumulative contributions to a pension plan exceed cumulative net periodic pension costs. Thus, a prepaid benefit cost can only be reduced through the recognition of pension cost.)

2. Overfunded Plan Asset 563
   (Aggregate Write-Ins for Other-Than-Invested Assets)
   Unassigned Funds – Transition Obligation 7.2
   Unassigned Funds – Prior Service Cost 42.8
   Unassigned Funds – Prior Service Cost (Nonvested) 20
   Unassigned Funds – Unrecognized Losses 493

This entry recognizes the transition amounts amortized through net periodic pension cost. The offset is to unassigned funds (as unassigned funds was used for the initial recognition of the unrecognized items). As this plan continues to be overfunded, these amounts are offset to overfunded plan assets.

3. Change in Nonadmitted - Prepaid Benefit Cost 1,013
   (Aggregate Write-Ins for Other-Than-Invested Assets)
   Unassigned Funds 1,013

This entry illustrates the impact of the change in nonadmitted prepaid benefit cost to unassigned funds.

4. Unassigned Funds 563
   Change in Nonadmitted – Overfunded Plan Asset 563
   (Aggregate Write-Ins for Other-Than-Invested Assets)

This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.

1c. December 31, 2014 – Recognition of Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
Total	*3000*
Amortization of:	
o Transition Obligation	7.2
o Prior Service Cost	42.8
o Prior Service Cost (nonvested)	20
o Unrecognized Losses	493
Total	*563*
Total Net Periodic Pension Cost	**3,563**

Note – This example was purposely completed to show a significant amount of periodic pension cost to create an underfunded plan status. This was done strictly for illustration purposes and is not intended to indicate that such significant changes would be expected, although they could occur.

	Debit	Credit
1. Net Periodic Pension Cost	3,563	
Prepaid Benefit Cost		3,563
(Aggregate Write-In for Other-Than-Invested Assets)		
2. Overfunded Plan Asset	1,282	
Unassigned Funds – Transition Obligation		7.2
Unassigned Funds – Prior Service Cost		42.8
Unassigned Funds – Prior Service Cost (Nonvested)		20
Unassigned Funds – Unrecognized Losses		493
Liability for Pension Benefits		719
(Aggregate Write-In for Other Liabilities)		

This entry recognizes the transition amounts that have been recognized through net periodic pension cost, with an offset to unassigned funds. The overfunded plan asset is initially offset, until the plan reaches an unfunded status, which is then reflected through a liability for pension benefits (aggregate write-in for other liabilities).

	Debit	Credit
3. Change in Nonadmitted - Prepaid Benefit Cost	3,563	
Unassigned Funds		3,563
4. Unassigned Funds	1,282	
Change in Nonadmitted - Overfunded Plan Asset		1,282

These entries illustrate the impact of the change in nonadmitted to unassigned funds.

Illustration 1 – Example Paragraph 97 Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. The adoption of SSAP No. 102 did not have a surplus impact on ABC entity as the pension plan was overfunded by more than the transition liabilities. At transition, ABC entity recognized $2,815 in unrecognized transition obligations, prior service costs, and unrecognized losses as components of the ending balance of unassigned funds as of January 1, 2013. This recognition resulted in a financial presentation which reflects the actual $2,731 overfunded status of the plan (fair value of plan assets exceeds the projected benefit obligation) as of January 1, 2013. As required under SSAP No. 102, overfunded plan assets are nonadmitted.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

~~The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):~~

~~Example 1~~	~~Dec. 31, 2012~~	~~Jan. 1, 2013~~
~~Accumulated Benefit Obligation~~	~~$(6,240)~~	~~$(6,240)~~
~~Plus: Non-Vested Liability~~	~~(100)~~	~~(100)~~
~~Total Accumulated Benefit Obligation~~	~~$(6,340)~~	~~$(6,340)~~
~~Projected Benefit Obligation~~	~~$(6,437)~~	~~$(6,437)~~
~~Plus: Non-Vested liability~~	~~(100)~~	~~(100)~~
~~Total PBO~~	~~$(6,537)~~	~~$(6,537)~~
~~Plan Assets at Fair Value~~	~~$9,268~~	~~$9,268~~
~~Funded Status~~	~~$2,731~~	~~$2,731~~
~~Transition Obligation / (Asset)~~	~~$36~~	
~~Prior Service Cost~~	~~214~~	
~~Prior Service Cost (Non-Vested)~~	~~100~~	
~~Unrecognized Losses / (Gains)~~	~~2,465~~	
~~Total Unrecognized Items~~	~~$2,815~~	–
~~Net Overfunded Plan Asset / (Liability for Benefits)~~	~~$5,546~~	~~$2,731~~

~~In the March 31, 2013, financial statements, the $2,731 overfunded plan assets was reflected as follows:~~

- ~~Prepaid Benefit Cost $5,546 (nonadmitted)~~
- ~~Overfunded Plan Asset $(2,815) (nonadmitted)~~

~~These amounts are reported net in Aggregate Write-Ins for Other-Than-Invested Assets: $2,731~~

Illustration of Example 1 – Overfunded Plan with Prepaid Benefit Cost

	Aggregate Write-In for Other-Than-Invested Assets		Nonadmitted Assets	Unassigned Funds	Periodic Pension Cost	Aggregate Write-In for Other Liabilities
	Prepaid Benefit Cost	Overfunded Plan Asset				
Existing Balances 12/31/2012	5,546DR		5,546CR			
Transition Entries – 1/1/2013						
A		2,815CR		2,815DR		
B			2,815DR	2,815CR		
After Transition	**5,546DR**	**2,815CR**	**2,731CR**	–		
After Transition - Net	**2,731DR**		**2,731CR**	–		
A – Recognize “unrecognized items” existing at 1/1/13 transition date (gains or losses, prior service costs or credits, and transition assets or obligations). For this plan, which is overfunded by more than the unrecognized liabilities, the entry at transition will be netted against the existing overfunded plan asset with an offset to unassigned funds. B – Illustrates the impact to the “change in nonadmitted” as a result of the decline in overfunded plan assets. For this particular example, with the transition entry to unassigned funds and the impact to nonadmitted assets, there is no surplus impact at transition. At transition, the net balance in aggregate write-ins reflects the overfunded state of the plan.						
Recognition of Net Periodic Pension Cost – 12/31/2013						
C	1,013CR				1,013DR	————
D		563DR		563CR		
E			1,013DR	1,013CR		
F			563CR	563DR		
Net Impact	450CR		450DR	1,013CR	1,013DR	
Ending Balances	**4,533 DR**	**2,252CR**	**2,281CR**	**1,013CR**	**1,013DR**	
Ending Balances-Net	**2,281DR**		**2,281CR**	**–**		
C – Reflects the periodic pension cost with an offset to the prepaid pension asset. D – Recognizes the transition amounts amortized through net periodic pension cost. The offset it to unassigned funds (as that was how the “unrecognized items” were recognized at transition). E/F – Reflects the change in nonadmitted assets to unassigned funds.						
Recognition of Net Periodic Pension Cost – 12/31/2014						
G	3,563CR				3,563DR	
H		1,282DR		563CR		719CR
I			3,563DR	3,563CR		
J			1,282CR	1,282DR		
Net Impact		2,281CR	2,281DR	2,844CR	3,563DR	719CR
Ending Balances	**970 DR**	**970 CR**	–	**2,844CR**	**3,563DR**	
Ending Balances - Net	–		–	**719DR**		**719CR**
G/H – Reflects the periodic pension cost with an offset to the prepaid pension asset. As no contributions have been made, the 2014 pension cost moves the plan from an overfunded to underfunded state. The overfunded plan asset credit is reduced to equally offset the remaining prepaid benefit cost of $970. The underfunded status is then reflected through a liability for pension benefits (aggregate write-in for other liabilities). I/J – Reflects the change in nonadmitted assets to unassigned funds.						

2. Underfunded Plan with Accrued Benefit Cost

Consideration of contributions or tax effects are not reflected in this example.

Example 2	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(2,015)	$(2,015)
Plus: Non-Vested Liability	(60)*	(60)
Total Accumulated Benefit Obligation	$(2,075)	$(2,075)
Projected Benefit Obligation	$(2,268)	$(2,268)
Plus: Non-Vested Liability	(60)	(60)
Total PBO	$(2,328)	$(2,328)
Plan Assets at Fair Value	$1,992	$1,992
Funded Status	$(336)	$(336)
Transition Obligation / (Asset)	$(544)	
Prior Service Cost / (Credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	$(52)	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(388)	$(336)

*The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reported within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reported within Aggregate Write-Ins for Liabilities.

2a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"

	Debit	Credit
1. Liability for Pension Benefits *(Aggregate Write-In for Liabilities)*	52	
Unassigned Funds – Prior Service Cost (Nonvested)	60	
Unassigned Funds – Unrecognized Losses	926	
Unassigned Funds – Transition Asset		544
Unassigned Funds – Prior Service Credit		494

For this plan, which is underfunded but has a net unrecognized asset, at transition the entity will improve their surplus presentation by $52 through a contra-liability. Use of the contra-liability is necessary, as if the item were recorded as an asset, it would be nonadmitted and result in a surplus reduction. Although there is a net unrecognized asset, this plan is in an underfunded state.

~~2b. December 31, 2013 – Recognition of Net Periodic Pension Cost~~

Components of Net Periodic Cost	**Dec. 31, 2012**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	*300*
Amortization of:	
o Transition Obligation (Asset)	(272)
o Prior Service Cost / (Credit)	(247)
o Prior Service Cost (nonvested)	30
o Unrecognized Losses	463
Total	*(26)*
Total Net Periodic Pension Cost	**274**

~~1. Unassigned Funds – Transition Asset 272~~
~~Unassigned Funds – Prior Service Credit 247~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 30~~
~~Unassigned Funds – Unrecognized Losses 463~~
~~Liability for Pension Benefits 26~~
~~*(Aggregate Write-In for Liabilities)*~~

~~*This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.*~~

~~2. Net Periodic Pension Cost 274~~
~~Accrued Benefit Cost 274~~

~~*This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.*~~

~~Note: All references to "accrued benefit cost" represent an unpaid expense liability, these amounts wills be reflected within general expenses due and accrued (life) or LAE/Other Underwriting expenses (p/c).~~

~~Note: This example uses a 2-year amortization period of the "unrecognized items." In actuality, amortization periods of each item will vary. Disclosures shall continue to separately present these items.~~

~~2c. December 31, 2014 – Recognition of Net Periodic Pension Cost~~

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	2500
Interest Cost	1000
Expected Return on Plan Assets	(500)
Total	*3,000*
Amortization of:	
o Transition Obligation / (Asset)	(272)
o Prior Service Cost / (Credit)	(247)
o Prior Service Cost (nonvested)	30
o Unrecognized Losses	463
Total	*(26)*
Total Net Periodic Pension Cost	**2,974**

1. Unassigned Funds – Transition Asset	272	
Unassigned Funds – Prior Service Credit	247	
Unassigned Funds – Prior Service Cost (Nonvested)		30
Unassigned Funds – Unrecognized Losses		463
Liability for Pension Benefits		26
(Aggregate Write-In for Liabilities)		

This entry occurs to amortize the transition items. Due to the nature of the unrecognized items (net asset recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into periodic pension cost for the current period.

2. Net Periodic Pension Cost	2,974	
Accrued Benefit Cost		2,974

This entry recognizes the net periodic pension cost for the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.

Illustration 2 – Paragraph 97 Example Note Disclosure:

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. At transition, ABC entity recognized a net $52 asset from unrecognized transition obligations/assets, prior service costs/credits, and unrecognized gains/losses as a component of the ending balance of unassigned funds as of January 1, 2013. This net impact was reflected as a contra-liability as the plan is in an underfunded state.

***For purposes of this example, tax effects are not reflected. However, the amount recognized at transition as components of the unassigned funds shall be net of tax.*

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 2	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(2,015)	$(2,015)
Plus: Non-Vested Liability	(60)	(60)
Total Accumulated Benefit Obligation	$(2,075)	$(2,075)
Projected Benefit Obligation	$(2,268)	$(2,268)
Plus: Non-Vested Liability	(60)	(60)
Total PBO	$(2,328)	$(2,328)
Plan Assets at Fair Value	$1,992	$1,992
Funded Status	$(336)	$(336)
Transition Obligation / (Asset)	$(544)	
Prior Service Cost / (Credit)	(494)	
Prior Service Cost (Non-Vested)	60	
Unrecognized Losses / (Gains)	926	
Total Unrecognized Items	$(52)	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(388)	$(336)

~~In the March 31, 2013, financial statements, underfunded pension obligations were reflected as follows:~~

- ~~Accrued Benefit Cost - $388~~
- ~~Liability for Pension Benefits (Aggregate Write-In for Liabilities) - ($52)~~

~~Illustration of Example 2 – Underfunded Plan with Accrued Benefit Cost~~

	~~Net Periodic Cost (Expense Recognition)~~	~~Unassigned Funds~~	~~Aggregate Write-In for Liabilities~~	~~Accrued Benefit Cost~~
~~Existing Balance – 12/31/2012~~		~~388DR~~		~~388CR~~
~~Transition Entries – 1/1/2013~~				
~~A~~		~~52CR~~	~~52DR~~	
~~After Transition~~		**~~336DR~~**	**~~52DR~~**	**~~388CR~~**
~~A. Recognize "unrecognized" items at transition. The above entry reflects the "net" impact, resulting with an unrecognized net asset (contra-liability) and an increase to the surplus presentation. (This unrecognized net asset is reflected as a contra-liability as it does not reflect a prepaid for the overfunding of plan assets. If this was reflected as an asset, it would be nonadmitted.)~~				
~~Recognition of Net Periodic Pension Cost – 12/31/2013~~				
~~B~~		~~26 DR~~	~~26 CR~~	
~~C~~	~~274 DR~~			~~274 CR~~
~~B. Entry amortizes the transition items (entry is shown net.) Due to the nature of the unrecognized items, (net asset, recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period.~~ ~~C. Entry recognizes the net periodic pension cost, interest cost, expected return on plan assets, and the amortization of the unrecognized items.~~				
~~Recognition of Net Periodic Pension Cost – 12/31/2014~~				
~~D~~		~~26 DR~~	~~26 CR~~	
~~E~~	~~2,974 DR~~			~~2,974 CR~~
~~D. Entry occurs to amortize the transition items (entry is shown net). Due to the nature of the unrecognized items, (net asset, recorded as a contra-liability), this entry reverses the original entry to remove the portion that will be amortized into net periodic pension cost for the current period.~~ ~~E. Entry recognizes net periodic pension cost the service cost, interest cost, expected return on plan assets and the amortization of the unrecognized items.~~				

3. Underfunded Plan with Accrued Benefit Cost with Surplus Deferral Elected

Consideration of contributions or tax effects are not reflected in this example.

Example 3	Dec. 31, 2012	Jan. 1, 2013
Accumulated Benefit Obligation	$(1,819)	$(1,819)
Plus: Non-Vested Liability	(103)*	(103)
Total Accumulated Benefit Obligation	$(1,922)	$(1,922)
Projected Benefit Obligation	$(2,099)	$(2,099)
Plus: Non-Vested Liability	(103)	(103)
Total PBO as of January 1, 2012	$(2,202)	$(2,202)
Plan Assets at Fair Value	$0	$0
Funded Status	$(2,202)	$(2,202)
Transition Obligation / (Asset)	$0	
Prior Service Cost	0	
Prior Service Cost (Non-Vested)	103	
Unrecognized Losses / (Gains)	440	
Total Unrecognized Items	543	–
Net Overfunded Plan Asset / (Liability for Benefits)	$(1,659)	$(1,922)

* The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and underfunded status of the plan. For the amounts shown as of December 31, 2012, immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

As illustrated above, the liability for pension benefits as of January 1, 2013, does not equal the underfunded plan status as the entity elected the transition deferral. Rather, the liability for pension benefits equals, at a minimum, the accumulated benefit obligation (ABO) less the plan asset at fair value. (Minimum transition liability that equals the ABO is required in accordance with paragraph 93.) After the transition period, the net overfunded plan asset / (liability for benefits) should equal the funded status of the plan.

3a. January 1, 2013 – Transition Date - Recognize "Unrecognized Items"

In accordance with paragraph 93, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the greater of:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Anticipated Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Transition Liability	**263**

Note: Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.)

January 1, 2013 – Transition Date:

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Balances as of 12/31/2012 under SSAP No. 89:
Accumulated Benefit Obligation: $1,819
Accrued Liability: $1,659
SSAP No. 89 Additional Minimum Liability: $160
SSAP No. 89 Admitted Intangible Asset: $160

	Debit	Credit
Unassigned Funds	160	
Intangible Asset		160
Additional Minimum Liability	160	
Unassigned Funds		160

Application of SSAP No. 102 – Recognition of Unfunded Status with Surplus Deferral:

	Debit	Credit
1. Unassigned Funds – Transition Liability	263	
Liability for Pension Benefits *(Aggregate Write-In for Liabilities)*		263

This entry represents the minimum transition liability required to be recognized at the transition date. As noted within the transition guidance, an entity may elect to transition the surplus impact over a period not to exceed 10 years. Paragraph 93 provides the specifications on the minimum liability recognized at transition. As this transition liability amount has yet to be recognized through expense (periodic cost), the liability is reflected through "aggregate write-ins for liabilities."

~~3b. December 31, 2013 – Recognition of Net Periodic Pension Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~*Total*~~	~~*300*~~
~~Amortization of:~~	
~~o Prior Service Cost (nonvested)~~	~~20.6~~
~~o Unrecognized Losses~~	~~88~~
~~*Total*~~	~~*108.6*~~
~~**Total Net Periodic Pension Cost**~~	~~**408.6**~~

~~1. Liability for Pension Benefits 108.6~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 20.6~~
~~Unassigned Funds – Unrecognized Losses 88~~

~~*This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.*~~

~~2. Net Periodic Pension Cost 408.6~~
~~Accrued Benefit Cost 408.6~~

~~*This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items.*~~

~~Note: Although the entity elected the transition option for surplus deferral, and the guidance allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize an amount that is at the greater of either 10% of the initial surplus impact or the amortization of the unrecognized items in effect at transition.~~

~~**In this example, the entity will only receive a 3-year deferral** – This illustration assumes 5-year uniform amortization of the transition amounts into expense for illustration purposes only. In practice, the minimum transition liability amounts may not be determinable until the expense is calculated in each future year:~~

~~**Surplus Impact at Transition**~~		~~**Prior Service Cost**~~	~~**Unrealized Losses**~~	
~~Transition Liability:~~	~~543~~	~~103~~	~~440~~	
~~Amount Recognized Jan. 1, 2013~~	~~(263)~~			
~~**Remaining Transition Liability**~~	~~**280**~~			
~~Minimum Transition Liability:~~		~~Anticipated Amortization:~~		~~**Remaining Transition Liability**~~
~~2014~~	~~**108.6**~~	~~20.6~~	~~88~~	~~171.4~~
~~2015~~	~~**108.6**~~	~~20.6~~	~~88~~	~~62.8~~
~~2016~~	~~**62.8**~~	~~12~~	~~50.8~~	~~–~~

~~3c. December 31, 2014 – Recognition of Transition Liability:~~

~~1. Unassigned Funds – Transition Liability 108.6~~
~~Liability for Pension Benefits 108.6~~

(Aggregate Write-In for Liabilities)

This entry represents the minimum transition liability required to be recognized at the subsequent date.

3d. December 31, 2014 – Recognition of Net Periodic Benefit Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	50
Interest Cost	30
Expected Return on Plan Assets	(35)
Total	*45*
Amortization of:	
o Prior Service Cost (nonvested)	20.6
o Unrecognized Losses	88
Total	*108.6*
Total Net Periodic Pension Cost	**153.6**

1. Liability for Pension Benefits 108.6
   (Aggregate Write-In for Liabilities)
   Unassigned Funds – Prior Service Cost (Nonvested) 20.6
   Unassigned Funds – Unrecognized Losses 88

2. Net Periodic Pension Cost 153.6
   Accrued Benefit Cost 153.6

This entry illustrates the December 2014 entries. The first removes the liability recognized for transition so that it could be recycled through expense, with the second recognizing net periodic cost (including the amortization of the unrecognized items.)

3e. December 31, 2015 – Activity within the pension plan has resulted with an overfunded plan.

As required under paragraph 93, if the fair value of plan assets had changed so that the plan was in an overfunded status, the transition liability would also be impacted with accelerated recognition to the extent the plan is in an overfunded status:

Components of Net Periodic Cost	**Dec. 31, 2015**
Service Cost	100
Interest Cost	75
Expected Return on Plan Assets	(50)
Total	*125*
Amortization of:	
o Prior Service Cost (nonvested)	20.6
o Unrecognized Losses	88
Total	*108.6*
Total Net Periodic Pension Cost	**233.6**

Recognition of Remaining Transition Liability and Net Periodic Pension Cost:

1. Unassigned Funds – Transition Liability 171.40
   Liability for Pension Benefits 171.40
   (Aggregate Write-In for Liabilities)

~~*This entry illustrates the immediate recognition of the remaining transition liability*~~

~~2. Liability for Pension Benefits 108.6~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Prior Service Cost (Nonvested) 20.6~~
~~Unassigned Funds – Unrecognized Losses 88~~

~~*This entry reflects the amortization into net periodic pension cost of the "unrecognized items" within unassigned funds. Amortization has not changed with the recognition of the remaining transition liability.*~~

~~3. Net Periodic Pension Cost 233.60~~
~~Accrued Benefit Cost 233.60~~

~~*Recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets, and the amortization of unrecognized items.*~~

~~4. Accrued Benefit Cost 2,456~~
~~Prepaid Benefit Cost 844~~
~~*(Aggregate Write-In – Assets)*~~
~~Cash – Contribution 3,300~~

~~*This entry recognizes the cash contribution, the elimination of the accrued benefit cost and the establishment of the prepaid benefit cost from the contribution.*~~

~~5. Liability for Pension Benefits 217~~
~~Overfunded Plan Asset 217~~
~~*Since the plan is now in a net overfunded status, the liability for pension benefits is reduced to zero, and offset to the overfunded pension asset (contra-asset).*~~

~~6. Unassigned Funds (Change in Nonadmitted) 844~~
~~Prepaid Benefit Cost (Nonadmitted) 844~~

~~*This entry recognizes the prepaid benefit cost that is nonadmitted and the underlying impact on unassigned funds.*~~

~~7. Overfunded Plan Asset (Nonadmitted) 217~~
~~Unassigned Funds (Change in Nonadmitted) 217~~

~~*This entry illustrates the impact of the change in nonadmitted overfunded plan asset to unassigned funds.*~~

© 2023 National Association of Insurance Commissioners

Example 3 - Comprehensive Illustration

Consideration of contributions or tax effects are not reflected in the example.

Underfunded Plan With Accrued Benefit Cost - Surplus Deferral Elected

		12/31/2012	1/1/2013	12/31/2013	12/31/2014	12/31/2015
ABO		(1,819)	(1,819)	(2,019)	(2,049)	(2,079)
Non-Vested Liability		(103)	(103)	(103)	(103)	(103)
Total ABO	A	(1,922)	(1,922)	(2,122)	(2,152)	(2,182)
-						
PBO	B	(2,099)	(2,099)	(2,399)	(2,444)	(2,569)
Non-Vested Liability	C	(103)	(103)	(103)	(103)	(103)
Total PBO	D	(2,202)	(2,202)	(2,502)	(2,547)	(2,672)
-						
Plan Assets at Fair Value	E	–	–	–	–	3,300
Funded Status	F	(2,202)	(2,202)	(2,502)	(2,547)	628
-						
Items Not Recognized in Unassigned Funds						
Transition Obligation (Asset)		–	–	–	–	–
Prior Service Cost		–	–	–	–	–
Prior Service Cost Non-Vested	G	103	–	–	–	–
Unrecognized Losses (Gains)	H	440	–	–	–	–
Total Unrecognized Items	I	543	–	–	–	–
Transition Items – Aggregate WI	J		(263)		(109)	(171)
Unassigned Funds – Transition	K			109	109	109
Periodic Pension Cost	L			(300)	(45)	(125)
Periodic Pension Cost - Amort.	M			(109)	(109)	(109)
Contribution	N		–	–	–	3,300
Overfunded Plan Asset (Liability for Benefits)	O	(1,659)	(1,922)	(2,222)	(2,376)	628
Unrecognized Transition Items	P		(280)	(280)	(171)	–
Funded Status	Q		(2,202)	(2,502)	(2,547)	628
Liability Reported Beg of Year	R		(1,659)	(1,922)	(2,222)	(2,375)
Recognized Transition Items	S		(263)		(109)	(171)
Unassigned Funds	T			109	109	109
Net Periodic Pension Cost	U		–	(409)	(154)	(235)
Contribution	V		–	–		3,300
Accrued/Prepaid End of Year	W	(1,659)	(1,922)	(2,222)	(2,375)	628
Unrecognized Items	X		(280)	(280)	(171)	0
Funded Status	Y		(2,202)	(2,502)	(2,547)	628
Reporting Lines:	-					
Accrued Benefit Cost	Z	1,659	1,659	2,068	2,221	0
Aggregate WI – Net Asset	AA					628
Aggregate WI - Liability	BB		263	154	154	0
Total Liability/(Asset) Reported	CC	1,659	1,922	2,222	2,376	(628)
Unfunded/(Overfunded) Status	DD		2,202	2,502	2,547	(628)
Liability Not Reported	EE		280	280	171	0

~~**Underfunded Plan with Accrued Benefit Cost - Surplus Deferral Elected**~~

~~**Jan. 1, 2013 - Transition**~~

~~***Entry A** - Recognize Minimum Transition Liability*~~

~~Unassigned Funds~~	~~263~~	
~~Liability for Pension Benefits~~		~~263~~
~~*(Aggregate Write-In for Liabilities)*~~		

~~**Dec. 31, 2013 - Recognize Periodic Pension Cost**~~

~~***Entry A** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry B** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~409~~	
~~Accrued Benefit Cost~~		~~409~~

~~**Dec. 31, 2014 - Recognize Transition and Periodic Pension Cost**~~

~~***Entry A** - Recognize transition liability*~~

~~Unassigned Funds~~	~~109~~	
~~Liability for Pension Benefits~~		~~109~~
~~*(Aggregate Write-In for Liabilities)*~~		

~~***Entry B** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry C** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~154~~	
~~Accrued Benefit Cost~~		~~154~~

~~**Dec. 31, 2015 - Recognize Transition and Periodic Pension Cost**~~

~~***Entry A** - Recognize transition liability*~~

~~Unassigned Funds~~	~~171~~	
~~Liability for Pension Benefits~~		~~171~~
~~*(Aggregate Write-In for Liabilities)*~~		

~~***Entry B** - Reverses portion of transition entry for the amount that will be amortized into periodic cost for the period.*~~

~~Liability for Pension Benefits~~	~~109~~	
~~*(Aggregate Write-In for Liabilities)*~~		
~~Unassigned Funds~~		~~109~~

~~***Entry C** - Recognize net periodic cost*~~

~~Net Periodic Cost~~	~~234~~	
~~Accrued Benefit Cost~~		~~234~~

~~***Entry D** - Recognize Cash Contribution*~~

~~Accrued Benefit Cost~~	~~2,456~~	
~~Prepaid Benefit Cost~~	~~844~~	
~~*(Aggregate Write-In Assets)*~~		
~~Cash Contribution~~		~~3,300~~

~~***Entry E** – Reduce Liability to Zero and Record Overfunded Plan Asset*~~

~~Liability for Pension Benefits~~	~~217~~	
~~Overfunded Plan Asset~~		~~217~~

~~***Entry F** – Recognize Nonadmitted Asset – Prepaid Benefit Cost*~~

~~Unassigned Funds~~	~~844~~	
~~*(Change in Nonadmitted)*~~		
~~Prepaid Benefit Cost (Nonadmitted)~~		~~844~~

~~***Entry G** – Recognize Nonadmitted Asset – Overfunded Plan Asset*~~

~~Overfunded Plan Asset (Nonadmitted)~~	~~217~~	
~~Unassigned Funds (Change in Nonadmitted)~~		~~217~~

~~**Illustration 3 – Paragraph 97 Example Note Disclosure – March 31, 2013:**~~

~~SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. ABC entity elected to utilize the minimum transition option reflected in paragraph 93 of SSAP No. 102. The SSAP requires initial transition liability to be the greater of paragraphs 93.b.i, 93.b.ii., and 93.b.iii.:~~

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	54.3
93.b.ii.	Annual Amortization of "Unrecognized Items" (Assumes 5-year Uniform Amortization)	108.6
93.b.iii.	Difference Between ABO and Accrued Benefit Cost	263
	Minimum Transition Liability	**263**

Note – Amortization of the unrecognized items (paragraph 93.b.ii.) may not be determinable at transition. If the amortization amount that will be recognized year-end 2013 is unknown at the transition date, at a minimum, the amount amortized for "unrecognized items" during the prior year shall be utilized for the component in paragraph 93.b.ii. of the minimum transition liability. If the amount recognized for transition (greater of all three components in paragraph 93.b.) is subsequently determined to be less than what is amortized for the year (paragraph 93.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, an entity must continue to recognize a minimum amount of the transition liability as determined in accordance with paragraph 93.b. This requires the entity to recognize each year an amount that is at least equal to the amortization of the unrecognized items in effect at transition. Although the amortization of the transition items into future expenses (paragraph 93.b.ii.) may not be fully determinable at the time of transition (as they are dependent on the future expense calculations), the reporting entity anticipates that the remaining $280 surplus impact from the election of the transition deferral in SSAP No. 102 will be recognized over a 3-year* period.

* This is a reporting entity projection and may be revised based on future expenses and activity.

Recognized Surplus Impact at Transition & Remaining Transition Liability		**Prior Service Cost**	**Unrealized Losses**
Transition Liability:	543	103	440
Amount Recognized Jan. 1, 2013	(263)		
Remaining Transition Liability	**280**		

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

Example 3	**Dec. 31, 2012**	**Jan. 1, 2013**
Accumulated Benefit Obligation	$(1,922)	$(1,922)
Projected Benefit Obligation	$(2,099)	$(2,099)
Plus: Non-Vested Liability	(103)	(103)
Total PBO	$(2,202)	$(2,202)
Plan Assets at Fair Value	0	0
Funded Status	($2,202)	($2,202)

Transition Obligation / (Asset)	0	
Prior Service Cost	0	
Prior Service Cost (Non-Vested)	103	
Unrecognized Losses / (Gains)	440	
Total Unrecognized Items	543	–
Overfunded Plan Asset / (Liability for Benefits)	(1,659)	(1,922)

In the March 31, 2013, financial statements, the $1,922 liability for pension benefits was reflected in the financial statements as follows:

- Aggregate Write-Ins for Liabilities: $263
- Accrued Benefit Cost: $1,659
- Surplus Deferral - Unrecognized Transition Liability - $280

(Note – This disclosure shall be completed on a quarterly and annual basis, with updated financial information reflecting the current and prior reporting periods, until the plan is fully funded without any transition liability remaining.)

Illustration 3 – Paragraph 97 Example Note Disclosure – December 31, 2015 – After Overfunded Contribution:

At December 31, 2015, ABC entity contributed $3,300 towards the pension plan. This contribution resulted in the plan being in an overfunded status. Pursuant to the requirements of SSAP No. 102, ABC immediately recognized the remaining transition liability ($171.40). Although the transition liability has been fully-recognized to unassigned funds, the amortization of the liability into net periodic pension cost has not changed.

Although the entity elected the transition option for surplus deferral, and SSAP No. 102 allows up to 10 years for deferral, with the contribution resulting in an overfunded-plan status, ABC entity was restricted to a 3-year transition schedule as follows:

January 1, 2013 (Transition)	$263.00
December 31, 2014	$108.60
December 31, 2015	$171.40
Total Transition Liability	$543.00

In the December 31, 2015, annual financial statements, pension obligations were reflected as follows:

- Prepaid Benefit Cost - $844 (Nonadmitted)
- Overfunded Plan Asset - $(217) (Nonadmitted)

These amounts are both reported as Aggregate Write-Ins for Other-Than-Invested Assets resulting in a net $628.

4. Underfunded Plan with Prepaid Benefit Cost – No Surplus Deferral Elected

Consideration of contributions or tax effects are not reflected in this example.

Example 4	**Dec. 31, 2012**[1]	**Jan. 1, 2013**	**Dec. 31, 2013**	**Jan. 1, 2014**	**Dec. 31, 2014**
Accumulated Benefit Obligation	(1,532)	(1,532)	(1,732)	(1,732)	(1,957)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$ (1,632)	$ (1,632)	(1,832)	(1,832)	(2,057)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,052)	(2,277)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)
Total PBO	$(1,852)	$(1,852)	(2,152)	(2,152)	(2,377)
Plan Assets at Fair Value	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	348	123
Transition Obligation / (Asset)	0	**0**	**0**	**0**	**0**
Prior Service Cost	48	**0**	**0**	**0**	**0**
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**
Unrecognized Losses / (Gains)	600	**0**	**0**	**0**	**0**
Total Unrecognized Items	748	**0**	**0**	**0**	**0**
Net Overfunded Plan Asset / (Liability for Benefits)	**496**	**(252)**	**(552)**	**348**	**123**

Overfunded Plan Asset and Liability for Benefits are terms to reflect the overfunded and unfunded status of the plan. For the amounts shown as of December 31, 2012 immediately prior to the effective date of the new standard, these terms reflect the balance sheet position. As overfunded plan assets are not admitted, these prepaids shall be reflected within Aggregate Write-Ins for Other-Than-Invested Assets. Transition liabilities recognized that have not been reflected through expense shall be reflected within Aggregate Write-Ins for Liabilities.

January 1, 2013 – Transition Date, Recognize "Unrecognized Items"

A. Unassigned Funds – Prior Service Cost 48
   Unassigned Funds – Prior Service Cost (Non-vested) 100
   Unassigned Funds – Unrecognized Losses 600
      Liability for Plan Benefits 252
      (Aggregate Write-In for Liabilities)
      Overfunded Plan Asset 496
      (Aggregate Write-In for Other-Than-Invested Assets)

B. Change in Nonadmitted – Overfunded Plan Asset 496
      Unassigned Funds 496

Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact.

[1] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

© 2023 National Association of Insurance Commissioners

~~Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan and establishes the appropriate liability to reflect the unfunded status. (Reporting entities will need to continue to track these categories separately.)~~

~~December 31, 2013 – Recognition of Net Periodic Pension Cost~~
~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~300~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~
~~Total~~	~~18.70~~
~~**Total Net Periodic Pension Cost**~~	~~**318.70**~~

~~C. Liability for Pension Benefits 18.70~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Transition Liability 18.70~~

~~This entry occurs prior to amortization of the items recognized at transition. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.~~

~~D. Net Periodic Pension Cost 318.70~~
~~Prepaid Benefit Cost 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, the prepaid benefit cost will be reduced with the recognition of periodic cost.~~

~~E. Overfunded Plan Asset 318.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Unassigned Funds 318.70~~

~~Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.~~

~~F. Change in Nonadmitted – Prepaid Benefit Cost 318.70~~
~~Unassigned Funds 318.70~~

~~G. Unassigned Funds 318.70~~
~~Change in Nonadmitted – Overfunded Plan Asset 318.70~~

~~Entries to reflect the change in nonadmitted assets for both entries "D" and "E." These entries offset.~~

~~H. Unassigned Funds 318.70~~
~~Liability for Pension Benefits 318.70~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry recognizes the unfunded liability from the 2013 net periodic costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is actual return on plan assets different from expected return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry "H" at year-end.~~

~~January 1, 2014 – Contribution~~

	~~**Jan. 1, 2014**~~
~~**Contribution**~~	~~$900~~

~~I. Prepaid Benefit Cost 900~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Cash 900~~

~~J. Liability for Pension Benefits 552~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Overfunded Plan Asset 552~~

~~With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $348.~~

~~K. Unassigned Funds 900~~
~~Change in Nonadmitted - Prepaid Benefit Cost 900~~

~~L. Change in Nonadmitted- Overfunded Plan Asset 552~~
~~Unassigned Funds 552~~

~~Entries recognize the impact as a result of the nonadmitted overfunded plan asset from entry "I" and "J."~~

~~December 31, 2014 – Recognition of Net Periodic Pension Cost~~

~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2014**~~
~~Service Cost~~	~~200~~
~~Interest Cost~~	~~75~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~225~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~

~~Total~~	~~18.70~~
~~Total Net Periodic Pension Cost~~	**~~243.70~~**

~~This example assumes no changes in the amortization timeframe. As noted in footnote 6 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date.~~

~~Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.~~

~~M. Overfunded Plan Assets 18.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~
~~Unassigned Funds – Transition Liability 18.70~~

~~This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry made to unassigned funds for the amount that will be amortized into periodic pension cost for the current period. Since the plan is currently overfunded, this is offset by overfunded plan asset.~~

~~N. Unassigned Funds 18.70~~
~~Change in Nonadmitted - Overfunded Plan Asset 18.70~~

~~This entry reflects the change in nonadmitted from entry "M."~~

~~O. Net Periodic Pension Cost 243.70~~
~~Prepaid Benefit Cost 243.70~~
~~*(Aggregate Write-In for Other-Than-Invested Assets)*~~

~~This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost. Once that amount is exhausted, an accrued liability would be recorded.~~

~~P. Change in Nonadmitted - Prepaid Benefit Cost 243.70~~
~~Unassigned Funds 243.70~~

~~Entries to reflect the change in nonadmitted assets for entry "O."~~

~~Example 4 - Underfunded Plan with Prepaid Benefit Cost – No Surplus Deferral Elected:~~

	~~Aggregate Write-In For Other-Than-Invested Assets~~		~~Change in Nonadmitted Assets~~	~~Net Periodic Cost~~	~~Unassigned Funds~~	~~Liability for Pension Benefits~~	~~Cash~~
	~~Overfunded Plan Asset~~	~~Prepaid Benefit Cost~~					
~~Existing Balance 12/31/2012~~		~~496 DR~~		–	~~496 CR~~ ~~496 DR~~	–	

			496 CR[2]				
Transition Entries 1/1/2013 A B	496 CR		496 DR		748 DR 496 CR	252 CR	
Jan. 1, 2013	**496 CR**	**496 DR**	–	–	**252 DR**	**252 CR**	
Jan. 1, 2013 - Net	–		–	–	**252 DR**	**252 CR**	–
Dec. 31, 2013: C D E F G H	318.70 DR	318.70 CR	318.70 DR 318.70 CR	318.70 DR[3]	18.70 CR 318.70 CR 318.70 CR 318.70 DR 318.70 DR	18.70 DR 318.70 CR	
Dec. 31, 2013	**177.30 CR**	**177.30 DR**	–		**552 DR**	**552 CR**	
Dec. 31, 2013 - Net	–		–	–	**552 DR**	**552 CR**	
Jan. 1, 2014 Contribution I J K L	552 CR	900 DR	900 CR 552 DR		900 DR 552 CR	552 DR	900 CR
After Contribution	**729.30 CR**	**1077.30 DR**	**348 CR**		**900 DR**	–	**900 CR**
Jan. 1, 2014 - Net	**348 DR**		**348 CR**		**900 DR**	–	**900 CR**
Dec. 31, 2014: M N O P	18.70 DR	243.70 CR	18.70 CR 243.70 DR	243.70 DR[11]	18.70 CR 18.70 DR 243.70 CR		
Dec. 31, 2014	**710.60 CR**	**833.60 DR**	**123 CR**		**900 DR**	–	**900 CR**
Dec. 31, 2014 - Net	**123 DR**		**123 CR**		**900 DR**		**900 CR**

5. Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Funded ABO

Consideration of contributions or tax effects are not reflected in this example.

Example 5	**Dec. 31, 2012[4]**	**Jan. 1, 2013**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Jan, 1, 2015**	**Dec. 31, 2015**
Accumulated Benefit Obligation	$(1,032)	$(1,032)	$(1,232)	$(1,457)	$(1,457)	$(1,657)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$(1,132)	$ (1,132)	(1,332)	(1,557)	(1,557)	(1,757)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100

[2] This reflects the change reported in prior years.

[3] Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

[4] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

Total PBO	$(1,852)	$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	(677)	223	23
Transition Obligation/(Asset)	0	**0**	**0**	**0**	**0**	
Prior Service Cost	48	**0**	**0**	**0**	**0**	
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**	
Unrecognized Losses/(Gains)	600	**0**	**0**	**0**	**0**	
Total Unrecognized Items	748	**0**	**0**	**0**	**0**	
Net Overfunded Plan Asset/ (Liability for Benefits)	**496**	**(25.20)**	**(325.20)**	**(475.40)**	**223**	**23**
Surplus Impact Deferred		**(226.80)**	**(226.80)**	**(201.60)**	**-**	**-**

Surplus Impact – The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total "unrecognized items" rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected without any impact to surplus even though the plan is underfunded. This is because a reduction in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.

Determine the initial transition surplus impact under the deferral election:

In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:

	Minimum Transition Liability	
93.b.i.	10% of Calculated Surplus Impact	25.20
93.b.ii.	Anticipated Annual Amortization of "Unrecognized Items" (Assume 40-year Uniform Amortization)	18.70
93.b.iii.	Difference Between unfunded ABO and Accrued Benefit Cost. (In this example, ABO is fully funded.)	–
	Transition Liability	**25.20**

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

January 1, 2013 – Transition Date

2. Unassigned Funds ——— 496
   Overfunded Plan Asset ——— 496
   (Aggregate Write-In for Other-Than-Invested Assets)

3. Change in Nonadmitted – Overfunded Plan Asset ——— 496
   Unassigned Funds ——— 496

4. Unassigned Funds – Transition Liability ——— 25.20

~~Liability for Plan Benefits 25.20~~
~~*(Aggregate for Write-In Liability)*~~

~~Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) The first two entries (Entry A & B) have a **ZERO surplus impact** and the third entry recognizes a liability for 10% of the surplus impact calculated at transition as that is the greatest element from paragraph 93.b.~~

~~December 31, 2013 – Recognition of Net Periodic Pension Cost~~
~~After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.~~

~~As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such, unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2013**~~
~~Service Cost~~	~~250~~
~~Interest Cost~~	~~100~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~300~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~
~~Total~~	~~18.70~~
~~**Total Net Periodic Pension Cost**~~	~~**318.70**~~

~~Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.~~

~~D. Liability for Pension Benefits 18.70~~
~~*(Aggregate Write-In for Liabilities)*~~
~~Unassigned Funds – Transition Liability 18.70~~

© 2023 National Association of Insurance Commissioners

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

E. Net Periodic Pension Cost 318.70
Prepaid Benefit Cost 318.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

F. Overfunded Plan Asset 318.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 318.70

Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.

G. Change in Nonadmitted – Prepaid Benefit Cost 318.70
Unassigned Funds 318.70

H. Unassigned Funds 318.70
Change in Nonadmitted – Overfunded Plan Asset 318.70

Entries to reflect the change in nonadmitted assets for both entries "E" and "F." These entries offset.

I. Unassigned Funds 318.70
Liability for Pension Benefits 318.70
(Aggregate Write-In for Liabilities)

Entry reflects the unfunded liability from the 2013 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded as part of entry "I" at year-end.

December 31, 2014 – Recognition of Deferred Transition Impact

J. Unassigned Funds – Transition Liability 25.20
Liability for Pension Benefits 25.20
(Aggregate Write-In for Liabilities)

Per paragraph 93, if surplus deferral is elected at transition, beginning with 2014 annual financials, the entity shall recognize the remaining surplus impact on a systematic basis over a period not to exceed the remaining nine years. This entry represents the minimum transition liability to be recognized subsequent to transition. Since it is assumed that there is no change in the amortization expectations, and ABO is still funded, this entry reflects 10% of the transition surplus impact.

December 31, 2014 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2014**
Service Cost	100

Interest Cost	75
Expected Return on Plan Assets	(50)
Total	125
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**143.70**

Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP No. 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.

K. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

L. Net Periodic Pension Cost 143.70
Prepaid Benefit Cost 143.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

M. Overfunded Plan Asset 143.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 143.70

Entry reflects the change in overfunded plan assets as a reduction in the contra-asset from initial transition.

N. Change in Nonadmitted – Prepaid Benefit Cost 143.70
Unassigned Funds 143.70

O. Unassigned Funds 143.70
Change in Nonadmitted – Overfunded Plan Asset 143.70

Entries reflect the change in nonadmitted assets for both entries "L" and "M." These entries offset.

P. Unassigned Funds 143.70
Liability for Pension Benefits 143.70
(Aggregate Write-In for Liabilities)

Entry reflects the unfunded liability from the 2014 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry "P" at year-end.

January 1, 2015 – Recognition of Cash Contribution

	Jan. 1, 2015
Contribution	$900

Q. Prepaid Benefit Cost 900.00
(Aggregate Write-In for Other-Than-Invested Assets)
Cash 900.00

R. Liability for Pension Benefits 475.40
(Aggregate Write-In for Liabilities)
Overfunded Plan Asset 475.40
(Aggregate Write-In for Other-Than-Invested Assets)

S. Unassigned Funds 900.00
Change in Nonadmitted – Prepaid Benefit Cost 900.00

T. Change in Nonadmitted – Overfunded Plan Asset 475.40
Unassigned Funds 475.40

With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $223.

U. Unassigned Funds 201.60
Overfunded Plan Asset 201.60

Since the plan is in an overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.

V. Change in Nonadmitted – Overfunded Plan Assets 201.60
Unassigned Funds 201.60

Entry reflects the change in nonadmitted assets from entry "U."

December 31, 2015 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2015**
Service Cost	100

Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**218.70**

(Previous notes on amortization continue to apply.)

W. Overfunded Plan Asset 18.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.

X. Unassigned Funds 18.70
Change in Nonadmitted – Overfunded Plan Asset 18.70

Entry reflects the change in nonadmitted assets from entry "W."

Y. Net Periodic Pension Cost 218.70
Prepaid Benefit Cost 218.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the noted items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.

Z. Change in Nonadmitted – Prepaid Benefit Cost 218.70
Unassigned Funds 218.70

Entry reflects the change in nonadmitted assets from entry "Y." This example assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status, and will also need to be recorded at year-end in an **additional entry** impacting the Overfunded Plan Asset. If the plan became underfunded due to these changes, then the amount of the underfunding would then be recorded as a Liability for Pension Benefits.

Example: Assume the PBO increased by $100 at year-end due to discount rate changes, etc. This would cause the plan to be underfunded by $77.00.

1. Unassigned Funds 100.00
Overfunded Plan Asset 23.00
Liability for Pension Benefits 77.00

2. Change in Nonadmitted – Overfunded Plan Asset 23.00

Unassigned Funds 23.00

Example 5 - Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Funded ABO:

	Aggregate Write-In For Other-Than-Invested Assets		Change in Nonadmitted Assets	Net Periodic Cost	Unassigned Funds	Liability for Pension Benefits	Cash
	Overfunded Plan Asset	Prepaid Benefit Cost					
Existing Balance 12/31/2012 (This reflects pre-2012 Entries)		**496 DR**	**496 CR**[5]	–	**496 CR** **496 DR**	–	
Transition Entries – 1/1/2013							
A	496 CR				496 DR		
B			496 DR		496 CR		
C					25.20 DR	25.20 CR	
Jan 1, 2013	**496 CR**	**496 DR**	–	–	**25.20 DR**	**25.20 CR**	
Jan 1, 2013 - Net	–		–	–	**25.20 DR**	**25.20 CR**	
Dec. 31, 2013:							
D					18.70 CR	18.70 DR	
E		318.70 CR		318.70 DR[6]			
F	318.70 DR				318.70 CR		
G			318.70 DR		318.70 CR		
H			318.70 CR		318.70 DR		
I					318.70 DR	318.70 CR	
Dec. 31, 2013	**177.30 CR**	**177.30 DR**	–		**325.20 DR**	**325.20 CR**	
Dec. 31, 2013 - Net	–		–	–	**325.20 DR**	**325.20 CR**	
Dec. 31, 2014:							
J					25.20 DR	25.20 CR	
K					18.70 CR	18.70 DR	
L		143.70 CR		143.70 DR[14]			
M	143.70 DR				143.70 CR		
N			143.70 DR		143.70 CR		
O			143.70 CR		143.70 DR		
P					143.70 DR	143.70 CR	
Dec. 31, 2014	**33.60 CR**	**33.60 DR**	–		**475.40 DR**	**475.40 CR**	
Dec. 31, 2014 – Net	–		–	–	**475.40 DR**	**475.40 CR**	
Jan. 1, 2015 – Contribution							
Q		900.00 DR					900.00 CR
R	475.40 CR					475.40 DR	
S			900.00 CR		900.00 DR		
T			475.40 DR		475.40 CR		
U	201.60 CR				201.60 DR		
V			201.60 DR		201.60 CR		

[5] This reflects the change reported in prior years.

[6] Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

~~**Jan. 1, 2015 – After Contribution**~~	~~**710.60 CR**~~	~~**933.60 DR**~~	~~**223.00 CR**~~		~~**900 DR**~~	~~——~~	~~**900 CR**~~
~~**Jan 1, 2015 - Net**~~	~~**223.00 DR**~~		~~**223.00 CR**~~	~~–~~	~~**900 DR**~~	~~——~~	~~**900 CR**~~
~~**Dec. 31, 2015:**~~							
~~W~~	~~18.70 DR~~				~~18.70 CR~~		
~~X~~			~~18.70 CR~~		~~18.70 DR~~		
~~Y~~		~~218.70 CR~~		~~218.70 DR~~[14]			
~~Z~~			~~218.70 DR~~		~~218.70 CR~~		
~~**Dec. 31, 2015**~~	~~**691.90 CR**~~	~~**714.90 DR**~~	~~**23.00 CR**~~		~~**900.00 DR**~~		~~**900.00 CR**~~
~~**Dec. 31, 2015 - Net**~~	~~**23.00 DR**~~		~~**23.00 CR**~~		~~**900.00 DR**~~		~~**900.00 CR**~~

6. Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Unfunded ABO

Consideration of contributions or tax effects are not reflected in this example.

Example 6	**Dec. 31, 2012**[7]	**Jan. 1, 2013**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Jan. 1, 2015**	**Dec. 31, 2015**
Accumulated Benefit Obligation	$(1,632)	$(1,632)	$(1,932)	$(2,057)	$(2,457)	(2,457)
Plus: Non-Vested Liability	(100)	(100)	(100)	(100)	(100)	(100)
Total Accumulated Benefit Obligation	$(1,732)	$(1,732)	(2,032)	(2,157)	(2,557)	(2,557)
Projected Benefit Obligation	$(1,752)	$(1,752)	(2,052)	(2,177)	(2,177)	(2,377)
Plus: Non-Vested liability	(100)	(100)	(100)	(100)	(100)	100
Total PBO	$(1,852)	$(1,852)	(2,152)	(2,277)	(2,277)	(2,477)
Plan Assets at Fair Value	1,600	1,600	1,600	1,600	2,500	2,500
Funded Status	($252)	($252)	(552)	(677)	223	23
Transition Obligation / (Asset)	0	**0**	**0**	**0**	**0**	
Prior Service Cost	48	**0**	**0**	**0**	**0**	
Prior Service Cost (Non-Vested)	100	**0**	**0**	**0**	**0**	
Unrecognized Losses / (Gains)	600	**0**	**0**	**0**	**0**	
Total Unrecognized Items	748	**0**	**0**	**0**	**0**	
Net Overfunded Plan Asset / (Liability for Benefits)	**496**	**(132)**	**(432)**	**(582.20)**	**223**	**23**
Additional Minimum Liability (Unfunded ABO)	(32)	0	The concept of an additional minimum liability and related intangible asset for plans with an unfunded ABO is eliminated in SSAP No. 102.			
Intangible Asset	32	0				
Surplus Impact Deferred		**(120)**	**(120)**	**(94.80)**	–	–

Surplus Impact – The transition guidance in SSAP No. 92 and SSAP No. 102 requires a minimum of 10% of the surplus impact on the transition date. If a systematic 10-year allocation was applied to the total "unrecognized items" rather than the surplus impact, there would be a number of years in which a prepaid asset would still be reflected, without any impact to surplus, even though the plan is underfunded. This is because a reduced in overfunded plan assets alone has a corresponding change to nonadmitted assets, resulting in a net zero surplus impact.

Determine the initial transition surplus impact under the deferral election:

In accordance with paragraph 93.b. of SSAP No. 102, the surplus impact initially recognized as of January 1, 2013 under the transition option, and subsequently over the transition period, shall be the **greater of**:

	Minimum Transition Liability	
93.b.i	10% of Calculated Surplus Impact at Transition	25.20

[7] The amount shown for December 31, 2012, reflects the non-vested liability, which must be considered at transition under SSAP No. 102. However, the non-vested liability is not a factor in the December 31, 2012, financial statements under SSAP No. 89.

93.b.ii	Anticipated Annual Amortization of "Unrecognized Items" (Assume 40-year Uniform Amortization)	18.70
93.b.iii	Difference Between unfunded ABO and Accrued Benefit Cost.	132.00
	Transition Liability	**132.00**

93.b.ii. Note: If the amortization cannot be determined at transition, at a minimum, the amount amortized for unrecognized items during the prior year shall be utilized for this calculation. If the amount recognized for transition (greater of all three components) is subsequently determined to be less than what was amortized for the year, the difference between what was recognized for transition and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds – surplus.

January 1, 2013 – Transition Date

Reversal of Additional Minimum Liabilities/Intangible Plan Assets: As this plan has an unfunded ABO, following the guidance under SSAP No. 89, the entity had recognized an additional minimum liability and corresponding admitted intangible asset. As the concept of an additional minimum liability has been eliminated from SSAP No. 102, at transition these amounts are eliminated, with the determination of the overfunded/unfunded projected benefit obligation calculated subsequent to the elimination.

Unassigned Funds 32
Intangible Asset 32

Additional Minimum Liability 32
Unassigned Funds 32

Application of SSAP No. 102 – Recognition of Unfunded Status with Surplus Deferral:

A. Unassigned Funds 496
Overfunded Plan Asset 496
(Aggregate Write-In for Other-Than-Invested Assets)

B. Change in Nonadmitted – Overfunded Plan Asset 496
Unassigned Funds 496

C. Unassigned Funds – Transition Liability 132
Liability for Pension Benefits 132

Prepaid Benefit Cost and Overfunded Plan Assets are both reflected as Aggregate Write-Ins for Other-Than-Invested Assets. However, Prepaid Benefit Cost can only be reduced with a corresponding income statement impact. Entry A, which uses a contra-asset, effectively results with a net elimination of the assets reported for the plan. (Reporting entities will need to continue to track these categories separately.) Entries A & B have a **ZERO surplus impact** and the third entry recognizes a liability for the unfunded ABO per the requirements of paragraph 93.b.

December 31, 2013 – Recognition of Net Periodic Pension Cost

After transition, recognition of net periodic pension cost includes: 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of prior service cost included in unassigned funds, 5) amortization of gains and losses, and 6) amortization of any transition asset or obligation remaining in unassigned funds.

As noted in paragraph 93.b., if surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact. As such,

unless the entity elects to recognize the remaining surplus impact early (which is permitted under SSAP No. 102), there is no additional surplus impact from transition recognized as of December 31, 2013.

Components of Net Periodic Cost	**Dec. 31, 2013**
Service Cost	250
Interest Cost	100
Expected Return on Plan Assets	(50)
Total	300
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**318.70**

Note – This example assumes no changes in the amortization timeframe. As noted in footnote 5 of SSAP No. 102, unless otherwise impacted from SSAP No. 102, or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date. Although the amortization of Prior Service Cost (assuming no additional changes) and non-vested Prior Service Cost will typically follow a straight-line amortization into Net Periodic Pension Cost, this is not the case for the Unrecognized Gains/Losses. The total amount of unrecognized gains/losses subject to amortization will continuously change due to changes in the discount rates, actuarial assumptions, differences between expected and actual return on assets, etc. In addition, unrecognized gains/losses are amortized into expense only to the extent that they exceed the 10% corridor (SSAP 102, paragraph 22). The 10% corridor is based on the greater of the PBO or the Fair Value of Plan assets, and these amounts are also continuously changing. Therefore, the amortization of the gain/loss will never occur on a straight-line basis using the corridor method described in paragraph 22. There is no "amortization schedule" in effect at transition date for the unrecognized gains/losses.

D. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

E. Net Periodic Pension Cost 318.70
Prepaid Benefit Cost 318.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

F. Overfunded Plan Asset 318.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 318.70

Entry reflects a reduction in the contra-asset recognized at transition at an amount equal to the reduction of prepaid benefit cost.

G. Change in Nonadmitted – Prepaid Benefit Cost 318.70

~~Unassigned Funds 318.70~~

~~H. Unassigned Funds 318.70~~
~~Change in Nonadmitted – Overfunded Plan Asset 318.70~~

~~Entries to reflect the change in nonadmitted assets for both entries "E" and "F." These entries offset.~~

~~I. Unassigned Funds 318.70~~
~~Liability for Pension Benefits 318.70~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry reflects the unfunded liability from the 2013 plan-related costs. This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry "I" at year-end.~~

~~December 31, 2014 – Recognition of Deferred Transition Impact~~

~~In accordance with paragraph 93 of SSAP No. 102, the minimum amount recognized each subsequent year shall be an amount that reflects the conditions of paragraph 93.b. As such, the surplus recognized shall be the **greater of:**~~

	~~**Minimum Transition Liability**~~	
~~93.b.i.~~	~~10% of Calculated Surplus Impact at Transition~~	~~25.20~~
~~93.b.ii.~~	~~Anticipated Annual Amortization of "Unrecognized Items" (Assume 40-year Uniform Amortization)~~	~~18.70~~
~~93.b.iii.~~	~~Difference Between unfunded ABO and Accrued Benefit Cost/Fair Value of Plan Assets.~~ ~~(Dec. 31, 2014 - Fair value of plan assets together with the Liability for Pension Benefits exceed the ABO.)~~	–
	~~**Transition Liability**~~	~~**25.20**~~

~~(Previous note on amortization continues to apply.)~~

~~J. Unassigned Funds – Transition Liability 25.20~~
~~Liability for Pension Benefits 25.20~~
~~*(Aggregate Write-In for Liabilities)*~~

~~Entry represents the minimum transition liability to be recognized subsequent to transition. (10% of the transition surplus impact is the greatest component of paragraph 93.b. as of Dec. 31, 2014.)~~

~~December 31, 2014 – Recognition of Net Periodic Pension Cost~~

~~**Components of Net Periodic Cost**~~	~~**Dec. 31, 2014**~~
~~Service Cost~~	~~100~~
~~Interest Cost~~	~~75~~
~~Expected Return on Plan Assets~~	~~(50)~~
~~Total~~	~~125~~
~~Amortization of:~~	
~~o Prior Service Cost~~	~~1.20~~
~~o Prior Service Cost (nonvested)~~	~~2.50~~
~~o Unrecognized Losses~~	~~15.00~~

Total	18.70
Total Net Periodic Pension Cost	**143.70**

(Previous note on amortization continues to apply.)

K. Liability for Pension Benefits 18.70
(Aggregate Write-In for Liabilities)
Unassigned Funds – Transition Liability 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the unrecognized items recognized to unassigned funds as part of the transition guidance (even if recognized subsequent to initial recognition under the deferral option) for the amount that will be amortized into periodic pension cost for the current period.

L. Net Periodic Pension Cost 143.70
Prepaid Benefit Cost 143.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. (As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.)

M. Overfunded Plan Asset 143.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 143.70

Entry reflects the change in overfunded plan assets as a reduction in the contra-asset to correspond with the change in net periodic pension cost. With this entry, the Prepaid Benefit Cost and Overfunded Plan Assets net to zero. This is appropriate as the plan is underfunded and a liability is reflected.

N. Change in Nonadmitted – Prepaid Benefit Cost 143.70
Unassigned Funds 143.70

O. Unassigned Funds 143.70
Change in Nonadmitted – Overfunded Plan Asset 143.70

Entries to reflect the change in nonadmitted assets for both entries “L” and “M.” These entries offset.

P. Unassigned Funds 143.70
Liability for Pension Benefits 143.70
(Aggregate Write-In for Liabilities)

Entry reflects the full unfunded liability, including impact from the 2014 plan-related costs.

Note - This entry assumes no additional changes in the PBO or Fair Value of Plan Assets at year-end. In practice, there will always be changes in the year-end PBO due to changes in the discount rate used to calculate the PBO, actuarial demographics different than expected, etc. An additional variation is **actual** return on plan assets different from **expected** return on plan assets. All of these factors will impact the year-end funded status and will also need to be recorded as part of entry “P” at year-end.

January 1, 2015 – Recognition of Cash Contribution

	Jan. 1, 2015
Contribution	$900

Q. Prepaid Benefit Costs 900.00
(Aggregate Write-In for Other-Than-Invested Assets)
Cash 900.00

R. Liability for Pension Benefits 582.20
(Aggregate Write-In for Liabilities)
Overfunded Plan Asset 582.20
(Aggregate Write-In for Other-Than-Invested Assets)

S. Unassigned Funds 900.00
Change in Nonadmitted – Prepaid Benefit Cost 900.00

T. Change in Nonadmitted – Overfunded Plan Asset 582.20
Unassigned Funds 582.20

With the cash contribution, the plan becomes overfunded with a prepaid benefit cost. The contribution directly increases the Prepaid Benefit Cost. The liability for pension benefits is eliminated, with an offset to the Overfunded Plan asset. The plan now has a NET overfunded plan asset of $223.

U. Unassigned Funds 94.80
Overfunded Plan Assets 94.80

As the surplus deferral was elected, with the overfunded status, per paragraph 93.b. of SSAP No. 102, the entity is required to recognize the deferred surplus impact from initial transition to the extent that the plan is overfunded. As the plan is overfunded by more than the remaining transition surplus impact, this entry recognizes the full remaining surplus impact deferred at transition.

V. Change in Nonadmitted – Overfunded Plan Assets 94.80
Unassigned Funds 94.80

Entry reflects the change in nonadmitted assets from entry U.

December 31, 2015 – Recognition of Net Periodic Pension Cost

Components of Net Periodic Cost	**Dec. 31, 2015**
Service Cost	100
Interest Cost	175
Expected Return on Plan Assets	(75)
Total	200
Amortization of:	
o Prior Service Cost	1.20
o Prior Service Cost (nonvested)	2.50
o Unrecognized Losses	15.00
Total	18.70
Total Net Periodic Pension Cost	**218.70**

(Prior amortization note continues to apply.)

W. Overfunded Plan Asset 18.70
(Aggregate Write-In for Other-Than-Invested Assets)
Unassigned Funds 18.70

This entry occurs prior to amortization of the transition items. This entry reverses a portion of the original transition entry for the amount that will be amortized into periodic pension cost for the current period.

X. Unassigned Funds 18.70
Change in Nonadmitted – Overfunded Plan Asset 18.70

Entry reflects the change in nonadmitted assets from entry "W."

Y. Net Periodic Pension Cost 218.70
Prepaid Benefit Cost 218.70
(Aggregate Write-In for Other-Than-Invested Assets)

This entry recognizes net periodic pension cost for the service cost, interest cost, expected return on plan assets and amortization of the unrecognized items. As the plan has a prepaid benefit cost, this will be reduced with the recognition of periodic cost.

Z. Change in Nonadmitted – Prepaid Benefit Cost 218.70
Unassigned Funds 218.70

Entry reflects the change in nonadmitted assets from entry "Y."

Example 6 - Underfunded Plan with Prepaid Benefit Cost – Surplus Deferral, Unfunded ABO:

	Aggregate Write-In For Other-Than-Invested Assets		**Change in Nonadmitted Assets**	**Net Periodic Cost**	**Unassigned Funds**	**Liability for Pension Benefits**	**Cash**
	Overfunded Plan Asset	**Prepaid Benefit Cost**					
Existing Balance 12/31/2012 (This reflects pre-2012 Entries)		496 DR	496 CR[8]	–	496 CR 496 DR	–	
Transition Entries – 1/1/2013							
A	496 CR				496 DR		
B			496 DR		496 CR		
C					132 DR	132 CR	
Jan 1, 2013	**496 CR**	**496 DR**	–	–	**132 DR**	**132 CR**	
Jan. 1, 2013 – Net	–		–	–	**132 DR**	**132 CR**	–
Dec. 31, 2013:							
D					18.70 CR	18.70 DR	
E		318.70 CR		318.70 DR[9]			
F	318.70 DR				318.70 CR		
G			318.70 DR		318.70 CR		
H			318.70 CR		318.70 DR		
I					318.70 DR	318.70 CR	
Dec. 31, 2013	**177.30 CR**	**177.30 DR**	–		**432.00 DR**	**432.00 CR**	
Dec. 31, 2013 – Net	–		–	–	**432.00 DR**	**432.00 CR**	–

[8] This reflects the change reported in prior years.

[9] Since Net Periodic Cost closes to unassigned funds at the end of each year, the balance does not carry forward.

~~**Dec. 31, 2014:**~~							
~~J~~					~~25.20 DR~~	~~25.20 CR~~	
~~K~~					~~18.70 CR~~	~~18.70 DR~~	
~~L~~		~~143.70 CR~~		~~143.70 DR~~[17]			
~~M~~	~~143.70 DR~~				~~143.70 CR~~		
~~N~~			~~143.70 DR~~		~~143.70 CR~~		
~~O~~			~~143.70 CR~~		~~143.70 DR~~		
~~P~~					~~143.70 DR~~	~~143.70 CR~~	
~~**Dec. 31, 2014**~~	~~**33.60 CR**~~	~~**33.60 DR**~~	~~–~~		~~**582.20 DR**~~	~~**582.20 CR**~~	
~~**Dec. 31, 2014 – Net**~~	~~–~~		~~–~~	~~–~~	~~**582.20 DR**~~	~~**582.20 CR**~~	~~–~~
~~**Jan. 1, 2015 – Contribution**~~							
~~Q~~		~~900 DR~~					~~900 CR~~
~~R~~	~~582.20 CR~~					~~582.20 DR~~	
~~S~~			~~900 CR~~		~~900 DR~~		
~~T~~			~~582.20 DR~~		~~582.20 CR~~		
~~U~~	~~94.80 CR~~				~~94.80 DR~~		
~~V~~			~~94.80 DR~~		~~94.80 CR~~		
~~**Jan. 1, 2015 – After Contribution**~~	~~**710.60 CR**~~	~~**933.60 DR**~~	~~**223.00 CR**~~		~~**900 DR**~~	~~——~~	~~**900 CR**~~
~~**Jan. 1, 2015 – Net**~~	~~**223.00 DR**~~		~~**223.00 CR**~~	~~–~~	~~**900 DR**~~	~~——~~	~~**900 CR**~~
~~**Dec. 31, 2015:**~~							
~~W~~	~~18.70 DR~~				~~18.70 CR~~		
~~X~~			~~18.70 CR~~		~~18.70 DR~~		
~~Y~~		~~218.70 CR~~		~~218.70 DR~~[17]			
~~Z~~			~~218.70 DR~~		~~218.70 CR~~		
~~**Dec. 31, 2015**~~	~~**691.90 CR**~~	~~**714.90 DR**~~	~~**23 CR**~~		~~**900 DR**~~		~~**900 CR**~~
~~**Dec. 31, 2015 - Net**~~	~~**23 DR**~~		~~**23 CR**~~	~~–~~	~~**900 DR**~~	~~–~~	~~**900 CR**~~

Staff Review Completed by: Jake Stultz, July 2023

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was no longer applicable as the ten-year effective period for that transition has ended.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/10-23-23/04 - 23-21 - Remove Transition Language SSAP 92, 102.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Collateral for Loans

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

This agenda item has been drafted to address an inconsistency regarding the collateral loan guidance in *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 21—Other Admitted Assets* (See excerpts in Authoritative Literature). These two statements contain guidance about unsecured and secured loans which is complementary.

SSAP No. 20 details the **nonadmitted assets status** of unsecured loans and loans secured by assets which do not qualify as investments. SSAP No. 20 also references write off and impairment guidance in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* for impaired and uncollectible loans. SSAP No. 20 provides that improperly collateralized loans include loans that do not have underlying assets that would otherwise qualify as **admitted assets** and stated that such loans are nonadmitted assets because the collateral would be of questionable economic value if needed to fulfill policyholder obligations. SSAP No. 20 includes similar nonadmission guidance regarding loans on personal security, cash advances to officers or agents and for travel advances.

SSAP No. 21 details the requirements for collateral loans which **can qualify to be admitted assets.** It provides that the collateral loan must be secured by the pledge of an investment. A footnote further describes that investment collateral would be of a type that would be in Section 3 of *Appendix A-001—Investments of Reporting Entities*. **SSAP No. 21 also references the nonadmission guidance in SSAP No. 20 for** collateral loans secured by assets that do not qualify as investments. The referenced guidance in SSAP No. 20 notes that the underlying assets must qualify as admitted assets.

Both SSAP No. 20 and SSAP No. 21 identify the need for adequate collateral that qualifies as an invested asset. SSAP No. 20 is explicit that the investment asset collateral must qualify as an admitted asset. Recent discussions with state regulators have highlighted that although SSAP No. 21 references the guidance in SSAP No. 20, that it would be beneficial to also note the need for the collateral to qualify as an admitted invested asset. This agenda item recommends a clarification to SSAP No. 21 that the acceptable invested asset collateral, for collateral loans must qualify as admissible invested assets.

Existing Authoritative Literature:

***SSAP No. 20—Nonadmitted Assets* (Bolding added for emphasis):**

4. Consistent with paragraph 2, the following assets shall be nonadmitted:

   a. Deposits in Suspended Depositories—Amounts on deposit with suspended depositories may not be fully recoverable. Any amounts not reasonably expected to be recovered shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. Amounts in excess of that written off shall be nonadmitted as they are not available to satisfy obligations to policyholders;

b. **Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Investments**—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized **as there are no underlying assets which would otherwise be admitted assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in *SSAP No. 105R—Working Capital Finance Investments*;**

c. **Loans on Personal Security, Cash Advances To, Or In The Hands Of, Officers Or Agents And Travel Advances**—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off typically are **unsecured and as such have no underlying assets which would otherwise be admitted assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Some of these items may also be considered prepaid expenses which, per *SSAP No. 29—Prepaid Expenses*, are nonadmitted;**

d. All "Non-Bankable" Checks—Examples of "non-bankable" checks are NSF (non-sufficient funds) checks, post-dated checks, or checks for which payment has been stopped. Although these checks may still maintain probable future benefits (and thus meet the definition of assets), at the date on which they are non-bankable they are not available for policyholder obligations and shall be nonadmitted until the uncertainty related to the probable future benefit is resolved and the checks are converted to available funds;

e. Trade Names And Other Intangible Assets[1]—These assets, by their nature, are not readily marketable and available to satisfy policyholder obligations and shall be nonadmitted;

f. Automobiles, Airplanes and Other Vehicles—Automobiles, airplanes and other vehicles meet the definition of assets established in SSAP No. 4. However, they are not readily available to satisfy policyholder obligations and as a result the undepreciated portion shall be nonadmitted. The accounting for these assets shall be consistent with the accounting for equipment provided in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* or for commercial airplane leveraged leases, refer to the guidance in *SSAP No. 22R–Leases*;

g. Company's Stock as Collateral for Loan—When a reporting entity lends money and accepts its own stock as collateral for the loan, it shall report the amount of the loan receivable and any related accrued interest on the loan as a nonadmitted asset. The asset is nonadmitted as the collateral could not be used to satisfy the obligation in the event of default.

Footnote 1: Defensible intangible assets are defined as an intangible asset acquired in a business combination or an asset acquisition that an entity does not intend to actively use but does intend to prevent others from using. These may also be referred to as a "locked-up asset" because while the asset is not being actively used, it is likely contributing to an increase in the value of other assets owned by the entity. These assets are not readily available to satisfy policyholder obligations and shall be nonadmitted.

© 2023 National Association of Insurance Commissioners

SSAP No. 21 – Revised—Other Admitted Assets **(Bolding added for emphasis)**

Collateral Loans

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of an investment[2] and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. **Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset.**

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: Investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities*.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): Not applicable.

Staff Review Completed by: Robin Marcotte – NAIC Staff – July 2022

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the revisions to SSAP No. 21R, illustrated below, which clarify that the invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

Proposed revisions to ***SSAP No. 21 – Revised—Other Admitted Assets***

Collateral Loans

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of an qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying Iinvestment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would .if held by the insurer would qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted.

Status:
On August 10, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

On December 13, 2022, the Working Group re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 21R which clarify that the invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets. These revisions clarify that for specific investments, the comparison for admittance is between the net equity audited value of the pledged collateral to the collateral loan balance. In addition, a consistency revision to *SSAP No. 20—Nonadmitted Assets*, paragraph 4.b. was exposed.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item to allow additional time to submit additional comments regarding the measurement of collateral pledged from SSAP No. 48 and SSAP No. 97 entities, as requested by industry.

© 2023 National Association of Insurance Commissioners

Exposed revisions to *SSAP No. 20—Nonadmitted Assets:*

4. Consistent with paragraph 2, the following assets shall be nonadmitted:

b. Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Admitted Investments—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized as there are no underlying assets which would otherwise be admitted invested assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in *SSAP No. 105R—Working Capital Finance Investments*;

Exposed revisions to ***SSAP No. 21 – Revised—Other Admitted Assets*** (new wording shown tracked and shaded)

Collateral Loans

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of an qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. For qualifying investments which are pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, such as joint ventures, partnerships and limited liability companies and investments that would qualify as SCAs if held directly, the proportionate audited equity valuation shall be used for the comparison for the adequacy of pledged collateral. If the collateral loan exceeds the audited equity valuation of these pledged investments, then the excess shall be nonadmitted.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying Iinvestment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would .if held by the insurer qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as

collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

For the October 23, 2023 meeting, the following is proposed for discussion

Exposed revisions to *SSAP No. 20—Nonadmitted Assets* (unchanged from March 2023 exposure):

4. Consistent with paragraph 2, the following assets shall be nonadmitted:

b. Bills Receivable Not for Premium and Loans Unsecured or Secured by Assets That Do Not Qualify As Admitted Investments—In accordance with SSAP No. 5R, amounts determined to be uncollectible or otherwise impaired shall be written off. Amounts in excess of that written off are not considered to be properly collateralized as there are no underlying assets which would otherwise be admitted invested assets. Such amounts shall be nonadmitted as they may be of questionable economic value if needed to fulfill policyholder obligations. Receivables arising from working capital finance programs designated by the Securities Valuation Office are subject to the guidance in *SSAP No. 105R—Working Capital Finance Investments*;

Proposed Revisions to ***SSAP No. 21 – Revised—Other Admitted Assets*** **for Collateral Loans** (new wording shown tracked and shaded)

Guidance previously exposed as shaded in paragraph 4b of SSAP No. 21 has been replaced with new shaded guidance. Paragraph 22 has new shaded guidance. Prior tracking that is planned for Working Group discussion remains.

- Other tracking reflects the current exposure.

4. Collateral loans are unconditional obligations[1] for the payment of money secured by the pledge of an qualifying investment[2] and meet the definition of assets as defined in SSAP No. 4, and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. Nonadmitted Asset—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, *SSAP No. 26R—Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a

fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying Iinvestment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Effective Date and Transition

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4, requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

© 2023 National Association of Insurance Commissioners

Attachment 6

Statutory Accounting Principles (E) Working Group
October 23, 2023
Comment Letters Received

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Exposed for the Summer National Meeting	
Interested Parties – September 12, 2023 o Ref # 2022-11: Collateral for Loans	1
Interested Parties – September 29, 2023 o Ref #2023-18: ASU 2016-19, Technical Corrections and Improvements o Ref #2023-19: ASU 2018-09, Codification Improvements o Ref #2023-20: ASU 2020-10, Codification Improvements o Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102	23 24 24 24

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

September 12, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment with Comments due September 12

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment during the NAIC National Meeting in Seattle by the Statutory Accounting Working Group (the Working Group).

Ref # 2022-11: Collateral for Loans

The Working Group re-exposed this agenda item to allow additional time to submit additional comments regarding the measurement of collateral pledged from SSAP No. 48 and SSAP No. 97 entities, as requested by industry.

Interested parties extend our appreciation to the Working Group for the additional 30 days to consider exposure Reference No. 2022-11—*Collateral for Loans* (the "exposure") and for the opportunity to submit a new comment letter. After further consideration of the exposure, in light of the discussion at the August 13, 2023 Working Group meeting, interested parties continue to support the clarification that collateral pledged to secure a collateral loan must qualify as an admitted asset for the collateral loan itself to qualify as an admitted asset. Therefore, we continue to support the specific clarification that when the collateral pledged to secure a collateral loan would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, audited financial statements are required for the collateral (and thus the collateral loan) to qualify as an admitted asset.

Interested parties also agree there should not be optionality in the guidance; however, we believe that fair value, not audited equity value, is the most appropriate measure of the sufficiency of collateral. Fair value is the most representative measure of the value of assets that would be available to support policyholder liabilities in the event a reporting entity forecloses on the pledged collateral. Fair value also reflects the basis that a reporting entity would use to recognize the collateral in its financial statements in the event of foreclosure and the basis used to test collateral loans for impairment. As a result, interested parties propose the following revision to the exposure, which would eliminate the exposed change to the valuation basis used for the collateral test for these types of collateral loans (the underlined red text is the Working Group's currently exposed changes).

b. Nonadmitted Asset – In Accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. ~~For qualifying investments which are pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97 if held directly by the reporting entity, such as joint ventures, partnerships and limited liability companies and investments that would qualify as SCAs if held directly, the proportionate audited equity valuation shall be used for the comparison for the adequacy of pledged collateral. If the collateral loan exceeds the audited equity valuation of these pledged investments, then the excess shall be nonadmitted.~~ To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Interested parties understand that some insurance regulators have expressed concerns about the uncertainty inherent in fair value measurements, particularly Level 2 and Level 3 measurements, due to the use of unobservable inputs and assumptions, and therefore, would like to see an additional level of third-party validation applied to the fair value measurement of the collateral securing these types of collateral loans. However, we note that these fair value measurements are subject to the same valuation standards per SSAP No. 100R – *Fair Value Measurements*, as all other investments carried at fair value, lower of cost or fair value, or for which the fair value is disclosed in the annual statements and audited financial statements, many of which are also Level 2 and Level 3 measurements. Therefore, interested parties believe it would be appropriate to continue to apply a consistent standard of valuation for all types of investments. Furthermore, interested parties note that the guidance in SSAP No. 21R, which requires the fair value of collateral to equal or exceed the carrying value of the collateral loan, represents an accounting assertion that is subject to audit by each reporting entity's independent auditor. As a result, the fair value measurements underpinning the collateral test are already subject to third-party validation by independent audit firms that either employ qualified valuation experts or would seek the expertise of qualified valuation experts when auditing the admissibility of a reporting

entity's collateral loans. Interested parties believe this, along with the clarified requirement for reporting entities to obtain audited financial statements for underlying collateral that represents an interest in an entity within the scope of SSAP No. 48 or SSAP No. 97, provides an appropriate level of assurance and third-party validation that should sufficiently address regulators' concerns without the need to impose a greater cost burden on reporting entities in the form of additional third-party validation requirements..

In summary, interested parties support the proposed clarifications to SSAP No. 21R; however, we believe that fair value remains the best and most appropriate measure of the sufficiency of collateral pledged to secure collateral loans, and we believe the independent audit process provides the necessary level of assurance around these fair value measurements. As a result, we respectfully request that the Working Group revise the exposure to allow reporting entities to continue to use fair value consistently for all types of collateral loans and to continue to apply valuation frameworks and methodologies consistent with current practices and the guidance in SSAP No. 100R.

Ref #2023-12: Residuals in SSAP No. 48 Investments

The Working Group exposed several revisions in the updated July 2023 recommendation. The updated recommendation was based on interim discussions and coordination with industry representatives. We offer the following comments:

For clarity and consistency's sake, once the new bond definition in SSAP Nos. 26R and 43R is effective, ABS Issuer can replace the definition of a residual in SSAP No. 43R paragraph 27 and SSAP No. 48 paragraph 19.

As the Form A for Ref #2013-12 would be effective immediately, we suggest that the effective date of December 21, 2023, be noted in the Form A, as that is what we understand the intent to be. This will give companies time to review their investment portfolios.

We also note that the proposed revisions to Annual Statement Instructions guidance is considered to be accounting in nature as it includes a partial definition of what is meant by "residual". As part of Ref #2023-01: Review Annual Statement Instructions for Accounting Guidance, NAIC staff is proceeding with a broad project to review the annual statement instructions and ensure accounting guidance is included in the related SSAPs**.** The focus of this project is to ensure that the annual or quarterly statement instructions are not the source of statutory accounting guidance. Although the annual statements is not the source of this accounting guidance, inclusion of part of the guidance could be misleading. We suggest the following section highlighted in yellow be deleted.

Schedule BA Annual Statement Instructions:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests~~, as defined within *SSAP No. 43R—Loan-Backed and Structured Securities or SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities*~~

~~*Companies*~~ should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities.*

Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

~~The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive 'residual' the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure a security reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests / residual security tranches include the items noted below, but the presence of absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

a. Residuals often do not have contractual principal or interest.

b. Residuals may be structured with terms that appear to be ~~have~~ stated principal or interest but that lack substance, and ~~with terms that~~ result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide ~~the~~ subordination to support the credit quality of the typically rated debt tranches.

d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after ~~other~~ debt tranche holders receive contractual principal and interest payments.

e. Frequently, there are contractual triggers that divert cash flows from the residual ~~tranche~~ holders to the debt tranches if the structure becomes stressed.

We also continue to seek clarification on the issues raised in the interested parties comment letter dated July 14, 2023 (copy attached). We understand that the residual definition is related to investment structures that issue debt securities created for the primary purpose of raising debt capital backed by a discrete pool of collateral assets (ABS issuers as defined in paragraph 8 of the current bond exposure in SSAP Nos. 26R) rather than debt issued for liquidity/operating purposes. As a result, interested parties do not believe the intent was to include the following types of investment structures:

- Private Funds (e.g., equity, debt, hedge)- that issued debt for liquidity / operating purposes rather than to raise capital backed by a discrete pool of collateral assets.
- Real Estate Funds (including REITs and JVs) (i.e., considered Issuer Credit Obligations, or "ICOs", in the proposed bond standard)
- Non-US registered Funds (i.e., considered ICOs in the proposed bond standard)
- Other ICOs in the proposed bond definition, such as 40 Act Funds, Business Development Company, Operating Entities, and Holding Companies supported by operating companies.

We request that the Working Group evaluate this issue and provide clarification.

INT 23-02T: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax

The Working Group reached tentative consensuses to the noted issues included in INT 23-02T for comment. The interpretation recommends that for third-quarter 2023, reporting entities should disclosure whatever information is available regarding the corporate alternative minimum tax and their applicable reporting entity status.

Prior submissions to the Working Group by interested parties in connection with the CAMT have advocated a deferral of statutory financial reporting for the CAMT while permanent guidance is being developed. Accordingly, interested parties is supportive of the provisions of this currently exposed version of INT 23-02T. We note, however, a few edits to the exposed INT that would be helpful for clarification in the attached edited version of the exposure. (Copy is attached.)

Ref #2023-04: Corporate Alternative Minimum Tax Guidance

The Working Group exposed *INT 23-03: Inflation Reduction Act - Corporate Alternative Minimum Tax* for comment with a proposed effective date of year-end 2023. After discussion, the Working Group also directed that the exposed INT 23-03T, including guidance which provides for the admissibility of CAMT credits under SSAP No. 101, paragraph 11c. should be

consistent with the treatment of other DTAs under this step (see exposure paragraph 34). The exposure provides a simple and reasonable solution that addresses the nuances of the new alternative tax structure and interested parties commends the Working Group on providing the guidance before year-end.

Interested parties submitted a marked draft of INT 23-03 with comments by email on September 5th to NAIC staff. (Copy is attached.)

The comments provided in this letter and the attached redline version of INT 23-03 are intended to clarify language that could cause misinterpretation within the industry and inconsistency in treatment. Again, interested parties support the overall accounting approach laid out in the INT.

A summary of our comments is as follows:

1) Interested parties suggests a few wording changes for consistency purposes, such as referring to "CAMT tax" as "CAMT" and "CAMT credit carryforwards" as CAMT credit DTAs". These suggested wording changes are not substantive and do not change the underlying meaning of INT 23-03.

2) A reporting entity determines if it will be an applicable corporation on a tax-controlled basis; however, TSAs are completed for consolidated tax return groups. Interested parties suggests changing "tax-controlled" to "consolidated tax return group" depending on the context of the paragraph.

3) The INT refers to the CAMT as indefinite tax credit. To avoid confusion with DTAs that do not reverse, interested parties suggests replacing "indefinite" with "non-expiring".

4) Paragraph 1.h. describes credit usage against CAMT. Foreign tax credits have specific carryforward rules depending on type and to avoid detailing the exact carryforward structure interested parties suggests removing the paragraph.

5) Paragraph 11.c. provides as a criterion that for reporting entities to have a TSA exclusion the TSA must have a term that the reporting entity reasonably expects or has knowledge that related parties under the TSA are meeting their obligations. Interested parties does not believe the requirement provided in 11.c. would exist in a legal document and would thus preclude most companies from the TSA exclusion. The requirement could also be interpreted to imply additional liquidity or going concern documentation is necessary. We believe the intent of 11.c, to reinforce joint and severable liability of tax liabilities, is covered in paragraph 12. We suggest deleting this paragraph.

6) Paragraph 12 states that even with the TSA exclusions, the guidance for joint and severable liabilities under SSAP No. 5, paragraph 5 continues to apply; however, SSAP 5 includes a specific exclusion for taxes in footnote 2. To address the Working Group's concern that the TSA exclusion could be widely interpreted so that reporting entities do not recognize taxes

due of co-obligors unable to meet their tax obligation, we propose referencing SSAP No. 101, paragraph 3.

SSAP No. 101, paragraph 3 states:

> "Income taxes incurred" shall include current income taxes, the amount of federal and foreign income taxes paid (recovered) or payable (receivable) for the current year.

The general definition of when a reporting entity recognizes current income taxes is broad enough to cover taxes paid on behalf of another entity (regular tax or CAMT). We propose referencing SSAP No. 101, paragraph 3 which avoids change to SSAP No. 5, but still allows the Working Group to reinforce the reporting still must recognize any CAMT paid or payable on behalf of a co-obligor.

7) Paragraph 13 provides the general accounting considerations for the CAMT. We suggest replacing the term "expected" in this paragraph with "reasonably estimated" to align with accounting standards.

8) Paragraphs 21.a., 28, and 31 reference the allocation of the CAMT credit DTA (or valuation allowance of the CAMT credit DTA). Interested parties proposes specifically stating that the allocations in these instances are to be made consistent with the TSA. Although the reader should assume as such, this language is intended to provide certainty.

9) Paragraph 24 describes the admissibility of deferred tax assets for CAMT credits. The use of CAMT credits depends on the consolidated tax return group, prompting the exception to SSAP No 4. Interested parties agrees with the concept but proposes wording changes to focus on the CAMT credit DTA instead of the current liability.

10) Paragraph 28 references the SSAP No. 101, paragraph 11 realization tables, as well as the ExDTA ACL RBC percentages used in SSAP No. 101, paragraph 11. We suggest adding a footnote or other clarification for non-RBC reporting entities and replacing "RBC" with "ExDTA ACL RBC".

11) Paragraph 28 provides that CAMT credit DTAs not realizable within the timetables for admittance are required to be non-admitted; however, the CAMT credit DTA could be admitted under SSAP No. 101, paragraph 11.c. Although paragraph 34 specifically allows admittance under SSAP No. 101, paragraph 11.c. interested parties proposes clarifying language to paragraph 28.

12) Paragraph 31 states the reporting entity is not required to take CAMT into account in calculating the "with and without" liability. Interested parties is concerned that because the CAMT credit DTA is evaluated for admittance separate from regular reversing DTAs misinterpretation could arise. In other words, explicitly state CAMT is not taken into account in the "with and with-out" calculation and 11.b. admittance is not reduced by projected

CAMT of the consolidated group (if any) during the three-year reversal period. This additional language is intended to prevent any potential misreading.

13) Paragraph 34 allows the CAMT credit DTAs to be admitted against DTLs in accordance with SSAP No. 101, paragraph 11.c. The language specifies the CAMT credit DTA can only be admitted against "applicable DTLs". We suggest removing "applicable" to avoid misinterpretation that certain DTLs are not applicable. Paragraph 34 also implies that CAMT credit DTAs can be admitted under SSAP No. 101, paragraph 11.a. The CAMT credit cannot be carried back and therefore interested parties suggests removal of the paragraph 11.a. reference.

14) Paragraph 35 details the consideration of tax projections in the admittance of the CAMT credit DTA. Interested parties suggests additional clarifying language to certain phrases. When projecting the CAMT liability, "groupings" is referenced from SSAP No. 101; however, it is more appropriate to state "groupings of assets and liabilities". Also, when describing modifications to the estimates, interested parties suggests "modifications to the estimate process" to avoid misinterpretation that any modification requires disclosure.

15) Paragraph 37.b. provides that if a reporting entity has filed its TSA and the domiciliary regulatory has confirmed that they have no objections to using the new TSA amendment or new TSA, while under review then the reporting entity can account for the TSA as applicable for the 2023 reporting period. Requiring confirmation from regulators while the TSA is under review raises many concerns. First, interested parties does not believe regulators will provide positive confirmation while under review, especially in writing. Without written confirmation audit firms will likely object to a reporting entity following an unapproved TSA which will result in variances in practices depending on the audit firm. For example, the reporting entity could be forced to account for CAMT in its 11.b. with and without calculation or payments of CAMT between related parties could be recharacterized as contributions/dividends. Finally, to obtain confirmation from regulators while the TSA is under review, reporting entities could seek permitted practices. Although permitted practices would provide a sound solution for 2023, they undermine why INT 23-03 was necessary in the first place – to avoid reporting entities establishing individualized policies for accounting for the CAMT.

    Interested parties agrees that if a reporting entity has filed its TSA while under review the reporting entity should follow the TSA for 2023. We propose updated language allowing reporting entities to follow the TSA for 2023 so long as the domiciliary regulator has not provided formal rejection while during the review period. This approach ensures all reporting entities follow their submitted TSAs without petitioning for a permitted practice for one year.

16) Paragraph 40.b. requires disclosure of the Realization Threshold Limitations Tables; however, these tables are already disclosed under SSAP No. 101. Interested parties suggests removing this disclosure.

17) Paragraph 46 illustrates a situation where an applicable reporting entity meets or exceeds the top line of the relevant SSAP No. 101 Realization Threshold Limitation. Interested parties suggests expanded language to parity the other proposed lanugage in this letter. Specifically, we suggest including a year where the consolidated tax return group expects to pay the CAMT to illustrate 11.b. admittance is not impacted. We also suggest including a statement that if only a portion of the CAMT credit DTA is expected utilized then the reporting entity would only admit an allocation of the CAMT credit DTA, determined consistent with the TSA. These additions are intended to bridge our comments to the examples.

* * * *

Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

September 29, 2023

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment with Comments due September 29

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment during the NAIC National Meeting in Seattle by the Statutory Accounting Working Group (the Working Group).

Ref # 2019-21: Principles-Based Bond Definition

The Working Group exposed revisions to SSAP No. 21R for debt securities that do not qualify as bonds, including the accounting for residual tranches, as well as an Issue Paper to detail historical discussions on the bond project. Interested parties have no comments on the Issue Paper.

Interested parties met with NAIC Staff to discuss SSAP No. 21R issues, other than the accounting for residual tranches, and agreed there are issues that need clarification and/or consistency between SSAP No. 21R, SSAP No. 26R, SSAP 43R, and the recently adopted language on the definition of residual tranches in SSAP No. 48.

As these are nuanced and interrelated changes still subject to the best approach in achieving clarification and/or consistency, it was agreed it was most efficient to work through the changes collaboratively especially given the significant agreement on the end results that are trying to be achieved. As part of this collaboration, interested parties would also like to discuss with NAIC staff and regulators the concept of audit requirements for residual tranches. The remainder of interested parties' comments relate to the proposed accounting for residual tranches.

In response to the residual accounting proposal forwarded by regulators, interested parties understand concerns about accreting investments above this initial cost, but also believe there may be a more reasonable accounting method for these investments versus the proposed cost recovery method.

Residual Tranche Accounting Alternatives (Paragraph 31)

Interested parties noted that the example provided by regulators showed a risky asset accreting high yields for multiple periods even if no cash is received, which is concerning from the point of view of accounting conservatism. While this example may raise alarms to regulators, it may not be representative of residual tranche investments in the industry currently. Many residual tranche investments generate positive cash flows period after period, by design and in practice. Additionally, since the risk of residual tranches is already being addressed through risk-based-capital regulation, we hope that accounting may be formulated to be reasonable on its own, without attempting to address risk through a second channel.

Interested parties initially proposed the effective yield method of accounting, which regulators rejected, noting in some cases it could lead to income generation which was deemed to be aggressive or premature. Regulators then proposed cost recovery method of accounting, which interested parties believe is too punitive in cases where healthy cash generating assets would be written down to zero before recognizing any income.

We hope that a third alternative can be reached which incorporates these two principles:

- Assets cannot be accreted above original (or subsequent) consideration paid; and
- Assets may use a systematic approach to record investment income to the extent cash is received.

In industry discussions it became clear that variety and complexity exists which impacts this topic including:

- Underlying collateral assets span from loans to mortgages to real estate to equity to lease backed assets, each case which may suggest a different expected earnings and cash flow pattern.
- Certain servicers clearly delineate the amount of principal vs. interest cash flows generated by the collateral that are allocated to each tranche of investment. Interested parties are currently reaching out to investment advisors to understand whether some servicers do not provide this same level of granularity.
- Certain investments accounted for currently under the equity method, may prospectively be classified as residuals. Currently under the equity method, distributions are allocated between return of capital and return on capital.

Interested parties have been discussing several alternatives, two of which are described below: servicer reports and capital statements and an effective yield method with a cap. Both

alternatives will also use a lower of adjusted cost or fair value concept and appropriate treatment for other than temporary impairments (OTTI). Interested parties would like the opportunity to discuss these alternatives with the Working Group to determine whether one or both of these approaches may be considered a reasonable alternative to the cost recovery method.

Servicer Reports or Capital and Distribution Statements

Servicer reports generally attribute every cash distribution into cash receipts from the interest payment on the collateral versus principal paydowns on the collateral. These cash distributions are allocated to each tranche of investment (including the residual) based upon a priority of payments schedule formalized in the operative documents for the respective securitization. Similarly, capital and distribution statements schedule out the return on capital and the return of capital. Insurers applying the equity method are accustomed to the appropriate timing to record a distribution as a dividend on the income statement under the equity method of accounting.

One alternative is to guide companies to refer to servicer reports or capital and distribution statements to recognize income equal to the portion of the residual interest's cash disbursements generated from interest receipts on the collateral pool. This method is simple, reliable and supportable.

Effective Yield Method with a Cap

Another alternative which could be applied is an effective yield method with a cap on income, such that income could only be recognized to the extent that there is a receipt of cash. As part of this alternative, the carry value of this asset may not be accreted above the cost of consideration paid. A detailed example of how this method would compare to effective yield method and cost recovery method has been drafted, noting that this third alternative would generally – if not always – result in a period-over-period carry value which is lower than the effective yield method and higher than the cost recovery method, meaning it represents a middle road, as expected. For this proposal, initial draft language has been presented for discussion as well.

We would like to offer the following principles for discussion, with the intent of replacing paragraph 31 in its entirety. Should this concept be acceptable to regulators, interested parties could also suggest actual SSAP language to accomplish what is described below.

Each period the book adjusted carrying value and interest income would be determined in the following manner:

1. At the beginning of the period, calculate the book yield as the discount rate that equates the then current best estimate of cash flows projections to the cost basis of the asset.
2. The maximum amount of interest income will be the product of the book yield and beginning of period book adjusted carrying value.
3. If cash distributed to the asset is less than the maximum amount of interest income:
    - Interest income equals total amount of cash distributions.
    - Book adjusted carrying value of the asset is not decreased.

4. If cash distributed to the asset is greater than the maximum amount of interest income:
    - ➢ Interest income equals the maximum amount calculated above.
    - ➢ Book adjusted carrying value is decreased by the amount of cash distributions in excess of the maximum amount of interest income.

Both a servicer report/capital and distribution statement method and an effective yield method with a cap would ensure that the carrying value is not accreted above cost and would allow for income recognition which is supported by cash receipts.

Comment on OTTI (Paragraphs 30 and 32)

It appears that the most recent draft of residual tranche guidance was adjusted to depart from standard lower of cost or market (LOCOM) accounting to automatically record any decrease of fair value below adjusted cost to be an other-than-temporary impairment, rather than capturing temporary reductions as unrealized losses. Interested parties generally would expect that LOCOM and OTTI processes would remain consistent for this asset class as it would be applied to other asset classes. We believe the following language, currently in SSAP 43R paragraph 26.c., should be moved to this standard:

> "For residual tranches or interests captured in scope of this statement, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7-Asset Valuation Reserve and Interest Maintenance Reserve."

Additionally, the language from SSAP No. 48 paragraphs 18 and 19 addresses the impairment process of an equity method investment and SSAP No. 43R, paragraphs 34 and 36, addresses the impairment process of a residual interest in a beneficial interest.

As noted, many alternatives are being discussed by interested parties. We have shared examples of our latest thinking above in order to continue a productive discussion with regulators on this important topic. We look forward to continuing to engage with regulators and stand ready to answer any questions you may have on this topic.

Ref #2022-12: Review of INT 03-02*: Modification to an Existing Intercompany Pooling Arrangement*

The Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

In response to the Working Group's request for examples of a modification to an existing intercompany pooling arrangement, interested parties identified the two most common modifications to intercompany pooling arrangements:

- the combination of two intercompany pooling arrangements following the acquisition by an insurance group of another insurance company (or group of companies), and
- the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business)

These two types of modifications may involve the movement of a significant amount of assets and liabilities to re-balance the capital and surplus of the insurance subsidiaries involved to manage the impact to a targeted RBC for the members of the intercompany pooling arrangement. A less common modification is the re-capitalization of the members of the pooling arrangement to adjust for changes in investment strategy over time. Because this latter type of transaction usually involves the movement of cash, not assets and liabilities, we are not including an example as the effects are fairly straight forward.

For purposes of the Example 1 below, please see the attached Organization Chart – Pre-Acquisition.

Example 1 is the combination of two intercompany pools following the acquisition of a group of companies:

- Insurance Group (Holdco) A acquires Insurance Group (Holdco) B.
- Insurance Group A and Insurance Group B have the following intercompany pools:

Intercompany Pool A:	Pool participation percentage:
Entity A1	70%
Entity A2	26%
Entity A3	4%

Intercompany Pool B:	Pool participation percentage:
Entity B1	60%
Entity B2	22%
Entity B3	18%

Upon completion of the acquisition, the acquired companies are owned by a common holding company for this example (please see attached Organizational Chart Post Acquisition – Example 1).

- Intercompany Pool A modifies its pooling arrangement, brings Intercompany Pool B into Intercompany Pool A and resets the pool participation percentages retroactive to January 1 of the current year as follows:

Intercompany Pool A:	Pool participation percentage:
Entity A1	40%
Entity A2	20%
Entity A3	3%

Entity B1	22%
Entity B2	8%
Entity B3	7%

- In this example, each entity's pool participation percentage have been reset in order to balance future capital needs, with consideration of risk-based capital and other financial measures (e.g., IRIS ratios).

- As a result of the pooling modification, the three former Intercompany Pool B entities must transfer net assets to each of the Intercompany Pool A entities. For purposes of this example, entity B1 transfers bonds totaling $9,000,000 to entity A1 in order to support the $9,000,000 of reserves[1] transferred to entity A1.

Scenario 1:

- If bonds with a market value of $9,000,000 and an amortized cost of $8,000,000 are transferred from entity B1 to entity A1 at market value, entity B1 may or may not have to defer its gain resulting from the transfer. This will depend on whether entity A1 and entity B1 have a common insurance entity parent. For example, if entity B1 is under entity A1's ownership chain or vice-versa as shown in the attached Organizational Chart Post Acquisition – Example 1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, B1 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- More importantly, because insurers generally hold most bond investments to maturity, the cash flows from the contractual payments over the term of the bonds will be aligned with the bonds' amortized cost, not the market value at a point in time. Because entity B1 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cashflows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $8,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000.

- In addition, if entity B1 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity B1 must treat the intercompany pooling as retroactive reinsurance pursuant to paragraph 36d of SSAP No. 62R as provided in the example.

[1] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

Scenario 2:

- If bonds with a market value of $9,000,000 and an amortized cost of $10,000,000 are transferred from entity B1 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $10,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000. Therefore, if entity B1 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Example 2 is the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business). For this example, please see attached Organizational Chart – Example 2:

- Entity A6 is removed from the Intercompany Pool comprised of 6 insurance subsidiaries under Holdco A (as the insurance group is discontinuing A6's lines of business and selling the entity A6).

- The intercompany pooling arrangement is modified and the pooling percentages are reset such that entity A1 absorbs A6's pooling participation (retroactive to January 1 of the current year).

- Prior to the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	37%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%
Entity A6	9%

- After the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	46%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%

- As a result of the pooling modification, entity A6 must transfer net assets to entity A1. For purposes of this example, entity A6 transfers bonds totaling $27,000,000 to entity A1

in order to support the reserves[2] transferred to entity A1 for the business retained by the intercompany pool.

Scenario 1:

- If bonds with a market value of $27,000,000 and an amortized cost of $26,000,000 are transferred from entity A6 to entity A1 at market value, the implications of such a transfer are the same as in Example 1. Entity A6 may or may not have to defer its gain resulting from the transfer. This will depend on whether or not entity A1 and entity A6 have a common insurance entity parent (the attached Example 2 assumes that the entities do not have a common insurance entity parent). For example, if entity was a subsidiary of entity A1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, A6 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- Because entity A6 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cash flows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $26,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification.

- In addition, if entity A6 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity A6 must treat the intercompany pooling as retroactive reinsurance pursuant to SSAP No. 62R.

Scenario 2:

- If bonds with a market value of $27,000,000 and an amortized cost of $28,000,000 are transferred from entity A6 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $28,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification. Therefore, if entity A6 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Ref #2022-14: New Market Tax Credits

The Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

---

[2] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

Revisions to SSAP No. 93 – *Low-Income Housing Tax Credit Property Investments* and SSAP No. 94R – *Transferable and non-transferable State Tax Credits* and updates were made in response to comments received from interested parties.

Interested parties appreciate the opportunity to comment on the substantive revisions exposed by the Working Group for SSAP No. 93 – *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 - *Transferable and Non-Transferable State Tax Credits* under item Ref #2022-14 *New Markets Tax Credits* (the Exposure). As stated in our prior comment letter on this topic, interested parties agree with having uniformity in accounting and reporting for equity and debt investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. However, we have concerns regarding the proposed adoption and scope provisions of the Exposure along with concerns that certain aspects of the Exposure could be misinterpreted which are outlined in the comments below:

SSAP No. 93 Admissibility Requirements for Ownership Interests in Tax Credit Investments
Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. Interested parties agree with the requirements of this paragraph to the extent that a tax credit investment meets **both** of the following criteria:

1) a reporting entity is not permitted to sell its ownership interest in a tax credit investment project to a 3rd party, and
2) the tax credits generated by the investment are not transferrable post allocation by the tax credit investment project.

If both of these criteria are met, a reporting entity's ownership interest in a tax credit investment can only be converted into allocated tax credits for use by the reporting entity and therefore, evaluation for admittance based on a reporting entity's ability to utilize the tax credits is appropriate.

Interested parties do not believe that the admissibility criteria within paragraph 18 should apply to ownership interests in tax credit investments that are unrestricted for sale (regardless of the type of tax credits that it generates and allocates) **or** for ownership interests in tax credit investments that are restricted but generate transferrable tax credits. Ownership interests in these types of tax credit investments represent investments that can be directly liquidated to satisfy policyholder obligations either through sale of the reporting entity's ownership interest in the investment (i.e., the future rights to receive tax credits that have not yet been generated and allocated by the tax credit investment) *or* sale of the transferrable tax credit post allocation. Therefore, we believe that these types of tax credit investments represent admitted assets and are fundamentally different from nonsaleable ownership interests in tax credit investments that only allocate non-transferrable tax credits.

Interested parties acknowledge that paragraphs 18(a) and 18(b) appear to provide an exception to the admissibility requirements in paragraph 18 for these types of investments:

> *18(a). Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*
>
> *18(b). Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*

With respect to paragraph 18(a), interested parties disagree with the concept that if the fair value of a tax credit investment is not determinable, a reporting entity must apply the admissibility criteria within paragraph 18 because this conflicts with the impairment requirements in paragraph 25 of SSAP No. 93R, which provides guidance to ensure that a reporting entity's ownership interest in a tax credit investment would never exceed its fair value. We believe paragraph 25 of SSAP No. 93R appropriately addresses admissibility for these scenarios and therefore the language in paragraph 18(a) should be removed from the Exposure. Further, paragraph 25 requires a reporting entity to test its investment in tax credit projects for impairment annually and permits a reporting entity to estimate fair value as the present value of the future tax credits and other tax benefits that are expected to be generated by the tax credit investment discounted at a risk-free rate of return. Interested parties believe that this method provides a reasonable approximation of the fair value of a reporting entity's ownership interest in a tax credit investment, as it is based on assumptions that would be used by market participants when determining the purchase price of a similar investment (i.e., fair value is directly tied to the tax credits/benefits expected to be generated by the investment). As these types of tax credit investments are unrestricted for sale, we believe these ownership interests should be considered admitted assets and that admissibility is appropriately captured by the impairment testing requirements of paragraph 25. In addition, interest parties believe paragraph 25 also addresses admissibility for ownership interests in tax credit investments that may be restricted for sale if they allocate transferrable tax credits. This is because of the direct link between a tax credit investment's fair value and the value of the tax credits it allocates. Accordingly, in these circumstances because the tax credit allocated by the investment can ultimately be sold to a 3rd party, the impairment testing requirements of paragraph 25 also appropriately address admissibility considerations related to the tax credit investment.

With respect to paragraph 18(b), interested parties believe the meaning of "estimated proceeds" has the same meaning as fair value and represents the price that would be received by the reporting entity for its ownership interest in a tax credit investment in an orderly transaction between market participants and that wording should therefore be stricken from paragraph 18. We believe that ownership interests in tax credit investments that allocate tax credits eligible for direct payment (i.e., non-transferrable tax credits) are no different from those that allocate transferrable assets because a reporting entity can sell its ownership interest in the tax credit investment (i.e., the rights to receive tax credits that have not yet been generated and allocated by

the tax credit investment). Similarly, we believe that admissibility of these tax credit investments is appropriately addressed by the impairment requirements of paragraph 25 because the fair value of a reporting entity's ownership interest in these tax credit investments is directly tied to the future tax credits and other tax benefits that are expected to be generated by the tax credit investment project.

Given these considerations, interest parties suggest the following revisions to paragraph 18; note that the proposed revisions below do not contemplate changes that may arise from the other comments discussed in this letter:

Reporting entities are required to annually assess the future utilization of the investment's current portion of unallocated tax credits against the estimated tax liabilities for both the tax year in which the tax credits can be initially utilized as well as any applicable carryback periods for a reporting entity's ownership interest in tax credit investments that meet both of the following criteria:

a. *the ownership interest in the tax credit investment is legally restricted for sale, and*
b. *the tax credits allocated to the reporting entity by the tax credit investment are not transferrable post allocation.*

~~*Based on this assessment,*~~ *For tax credit investments that meet both of these criteria,* *…………………………..*

.... ~~*As an exception to the admittance assessment detailed above, if the tax credit investment allocates tax credits with the following features the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment may be admitted*~~*:*

~~a. *Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*~~
~~b. *Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*~~

SSAP No. 93 Paragraph 18 Clarifications
Interested parties also suggest clarification of key terms in paragraph 18. Based on previous dialog with the Working Group, we propose the following definitions:

1) "unallocated tax credits" - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.
2) "current portion" - the credits allocated within one year of the reporting period.

In addition, to avoid misinterpretation we propose that instead of assessing if the unallocated tax credits will be used over the life of the investment, that the assessment should occur over the life

of the tax credit. This language aligns with the next sentence, which references if the unallocated tax credits will exceed what can be utilized under IRS or state tax provisions, the reporting entity must non-admit a portion of the investments. IRS and state tax authorities generally provide that if tax credits allocated or generated in the current year cannot be used to offset the current tax liability, they are carried forward for a specified number of years.

> "...if the reporting entity does not expect to substantially utilize the current portion of unallocated investment tax credits, the reporting entity shall perform an expanded assessment to determine the extent that it will be able to utilize all of the investment's unallocated tax credits over the life of the tax credit ~~the life of the investment~~. If assessment projections identify that the investment's unallocated tax credits will exceed what can be utilized under IRS or state tax provisions (current and carryforward periods ~~other applicable tax periods~~), the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within carryforward periods. Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized within the carryforward periods then the entire investment shall be nonadmitted."

Paragraph 18 disallows reporting entities from assuming that future operations will increase as support for the utilization of tax credits. However, interested parties assume that tax planning strategies are required when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. Explicitly providing this requirement prevents misinterpretation and avoids unintended fluctuations in surplus in the year credits are allocated and assessed under the guidelines in SSAP No. 101.

Retrospective Versus Prospective Adoption

Interested parties believe that applying the requirements under the revised standards upon transition should be done on a prospective basis so that no adjustments to surplus are recorded at the date of adoption. Under the prospective method, companies will analyze which of their investments meet the criteria under each standard. For SSAP No. 93 investments, the carrying book value at the date of adoption will become the starting balance, which will be used to determine future amortization under the proportional amortization method based on future tax credits and other tax benefits to be earned. Under SSAP No. 94, the requirement to record the credits at their face value should be applied to future purchases only. Otherwise, we would have to adjust the book value of those credits upon adoption due to the change in accounting for SSAP No. 94 purchased tax credits that requires recording these credits at face value rather than actual cost.

Adoption Date

Due to the level of work required to review investments for which tax credits are received to determine if they meet the criteria under SSAP No. 93, we believe that having an effective date of 1/1/25 would be more reasonable. In addition, we understand that changes to Schedule BA along with review by the NAIC's Capital Adequacy Working Group will need to take place to report the new investments in the appropriate section of the schedule. Since this will require

additional time as well, 1/1/25 seems reasonable. Although the FASB ASU has an adoption date of 1/1/2024 for many insurers, many other insurers do not apply US GAAP and/or meet the requirements to adopt the ASU after 1/1/2024. Additionally, the accounting requirements for the new FASB ASU are different than those under the Exposure and thus, additional time to adopt the Exposure is warranted.

For SSAP No. 94 tax credits, since the adoption of this standard requires minimal changes to the annual statement as these are reported as other-than-invested assets and not as investments, an effective date of 1/1/25 with early adoption allowed will be beneficial for industry. Early adoption will allow insurers that purchase federal tax credits to apply the proposed accounting under SSAP No. 94. Otherwise, there may be questions of admissibility for new instruments purchased, since today's SSAP No. 94 only addresses state tax credits.

SSAP No. 94 Scope
There have been some questions about whether there is enough clarity about the types of tax credits that fall within SSAP No. 93 versus SSAP. No. 94. Interested parties' understanding is that SSAP No. 93 relates to debt and equity investments where the return on the investment is predominantly from tax credits and other tax benefits whereas SSAP No. 94 addresses tax credit "vouchers" that are purchased outright from any party, which are not considered investments (but instead represent receivables). To that end, we want to suggest the following edits to the SSAP No. 94 scope:

> "This statement establishes statutory accounting principles for state and federal tax credits that are purchased[1] by the reporting entity without being a~~n~~ bond or equity investor in the entity from which the tax credit were purchased."

Ref #2023-14: ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve***

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept and exposed this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the annual statement instructions when incorporating SAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

Interested parties support the comments made by the ACLI in its comment letter.

Schedule Ref #2023-16: Schedule BA Reporting Categories

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of

assets. This item contains revisions to further define, for consistency purposes, investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

Interested parties recommend several edits to further clarify and define the investments that should be categorized as non-registered private funds, joint ventures, partnerships or limited liability companies or residual interests, based on the characteristics of the underlying assets.

Please see the related attachment with marked edits.

We do not recommend any changes to the language describing Non-Registered Private Funds, but we would like to comment on what is included in that section in response to the Working Group's request: in addition to private funds which have been filed with the SVO and private funds which have not been filed with the SVO, there are certain fixed income instruments not included on schedule D or schedule B, consistent with the Annual Statement Instructions for that schedule.

Ref #2023-17: Short-term Investments

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. To correspond with the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly. This item contains revisions to further restrict the investments that are permitted to be included in cash or shorter-term investment reporting.

Interested parties have no comments on this item.

Ref #2023-18: *Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to adopt, with modification, *ASU 2016-19, Technical Corrections and Improvements* for statutory accounting in SSAP Nos. 5R, 92, 102, and 103R as illustrated in the proposal. The proposed revisions adopt with modification certain aspects of *ASU 2016-19: Technical Corrections and Improvements*. The revisions also include amending SSAP No. 92 – *Postretirement Benefits Other Than Pensions* guidance on insurance contracts to use the same terminology as that used in SSAP No. 102 – *Pensions*.

Interested parties have no comments on this item.

Ref #2023-19: ASU 2018-09, Codification Improvements

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-09 Codification Improvements* as not applicable for statutory accounting.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-20: ASU 2020-10, Codification Improvements

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2020-10, Codification Improvements* as not applicable for statutory accounting.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-21: Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was no longer applicable as the ten-year effective period for that transition has ended.

Interested parties agree with the recommendation in this agenda item.

Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 54R to clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated. In addition, the Working Group directed staff to provide formal notice of the exposure to the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group.

Interested parties have no comments on this item.

* * * *

Please feel free to contact either one of us with any questions you may have.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties
NAIC staff