Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Update Withdrawal Disclosures**

**Check (applicable entity):**

P/C Life Health

Modification of existing SSAP

New Issue or SSAP

Interpretation

Description of Issue:

In November 2018, the Working Group updated the life, health and separate account liquidity disclosures to provide more granularity of the withdrawal characteristics by product type. These updates were developed by the Financial Stability (Ex) Task Force and were adopted in agenda item 2018-28: Updates to Liquidity Disclosures. Agenda item 2018-28 updated the liquidity disclosures in *SSAP No. 51R—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* with an effective date of year-end 2019.

This agenda item proposes minor clarifying edits to the disclosures identified subsequent to the adoption of the related 2019 annual statement blanks proposal. These items include:

* Addition of separate account guaranteed products in one of the illustrations to remedy its omission. As quoted in the authoritative literature section below, SSAP No. 51R, SSAP No. 52 and SSAP No. 61R currently reference both guaranteed and nonguaranteed separate account products. This adds a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures.
* Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting.
* Add a cross-reference from *SSAP No. 56—Separate Accounts* to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

Existing Authoritative Literature:

The below includes excerpts of text that was updated in agenda item 2018-28.

*SSAP No. 51R—Life Contracts* (Bolding added for emphasis):

45. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

*NOTE: Subparagraphs a-f omitted for brevity.*

46. Disclose the amounts of account value, cash value and reserve for the breakouts of life insurance by withdrawal characteristics, separately for General Account products and **Separate Account Nonguaranteed** products, as follows:

1. Subject to discretionary withdrawal, surrender values, or policy loans:
2. Term Policies with Cash Value
3. Universal Life
4. Universal Life with Secondary Guarantees
5. Indexed Universal Life
6. Indexed Universal Life with Secondary Guarantees
7. Indexed Life
8. Other Permanent Cash Value Life Insurance
9. Variable Life
10. Variable Universal Life
11. Miscellaneous Reserves
12. Not subject to discretionary withdrawal or no cash value:
13. Term Policies without Cash Value
14. Accidental Death Benefits
15. Disability – Active Lives
16. Disability – Disabled Lives
17. Miscellaneous Reserves
18. Total gross (Direct + Assumed)
19. Reinsurance ceded
20. Total net (Net: Total gross (paragraph 46.c.) less Reinsurance ceded (paragraph 46.d.))

The difference between the account value and the cash value is the surrender charge, if any. After the surrender period is over, there is no difference. Some contract types have no account value such as traditional whole life, term, etc. So, if there is no account value, leave it blank. UL typically has an account value and a cash surrender value. Just as account values are not reduced for policy loans taken and outstanding, the cash value amount reported in this disclosure should not be reduced for policy loans taken and outstanding. This will ensure the difference between account value and cash value is the actual surrender charge.

47. Reconcile total life insurance reserves amount disclosed to the appropriate sections of the Aggregate Reserves for Life Policies and Contracts Exhibit (Exhibit 5) of the Life, Accident and Health Annual Statement and the corresponding lines in the Separate Accounts Statement. The reconciliation is a single presentation including all amounts from the sections on Individual Life Insurance and Group Life Insurance.

*SSAP No. 52—Deposit-Type Contracts* (Bolding added for emphasis):

1. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, **separate account with guarantees, separate account nonguaranteed** as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

*NOTE: Subparagraphs omitted for brevity.*

SSAP No. 61R (Bolding added for emphasis):

1. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, **separate account with guarantees, separate account nonguaranteed** as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

***NOTE: Subparagraphs omitted for brevity.***

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): This agenda item proposes consistency edits related to the disclosures developed by the Financial Stability (Ex) Task Force, which were adopted in November 2018 in agenda item 2018-28: Updates to Liquidity Disclosures.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** The Blanks (E) Working Group addressed this issue for 2019 reporting in an editorial change in June 2019 and is proposing separate tables for the guaranteed and nonguaranteed separate account products for 2020 reporting in agenda item 2019-21BWG.

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

Staff Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to SSAP No. 51R, SSAP No. 56 and SSAP No. 61R as described and illustrated below:

1. Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures.
2. Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting.
3. Add a cross reference from *SSAP No. 56—Separate Accounts* to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosures include separate account products.

Revisions recommended for exposure are as follows:

*SSAP No. 51R—Life Contracts*

45. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the insurer;

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period;

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in paragraph 45.a.v.(d);

iii. At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

iv. Total with adjustment or at fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified “bail out” rate and the “bail out” rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;

b. Not subject to discretionary withdrawal;

c. Total gross;

d. Reinsurance ceded;

e. Total net.

f. Amount with current surrender charge of 5% or more included in the current year in paragraph 45.a.ii. that will have less than a 5% surrender charge (and thus be reported with the amounts at book value with minimal or no charge or adjustment noted in paragraph 45.a.v.) for the first time within the year subsequent to the balance sheet year. (Note that percentage of total is not required for this item.)

46. Disclose the amounts of account value, cash value and reserve for the breakouts of life insurance by withdrawal characteristics, separately for General Account products, Separate Account Guaranteed products and Separate Account Nonguaranteed products, as follows:

a. Subject to discretionary withdrawal, surrender values, or policy loans:

i. Term Policies with Cash Value

ii. Universal Life

iii. Universal Life with Secondary Guarantees

iv. Indexed Universal Life

v. Indexed Universal Life with Secondary Guarantees

vi. Indexed Life

vii. Other Permanent Cash Value Life Insurance

viii. Variable Life

ix. Variable Universal Life

x. Miscellaneous Reserves

b. Not subject to discretionary withdrawal or no cash value:

i. Term Policies without Cash Value

ii. Accidental Death Benefits

iii. Disability – Active Lives

iv. Disability – Disabled Lives

v. Miscellaneous Reserves

c. Total gross (Direct + Assumed)

d. Reinsurance ceded

e. Total net (Net: Total gross (paragraph 46.c.) less Reinsurance ceded (paragraph 46.d.))

The difference between the account value and the cash value is the surrender charge, if any. After the surrender period is over, there is no difference. Some contract types have no account value such as traditional whole life, term, etc. So, if there is no account value, leave it blank. UL typically has an account value and a cash surrender value. Just as account values are not reduced for policy loans taken and outstanding, the cash value amount reported in this disclosure should not be reduced for policy loans taken and outstanding. This will ensure the difference between account value and cash value is the actual surrender charge.

*SSAP No. 56—Separate Accounts* (Note -this revision adds a reference to the other withdrawal characteristics disclosures which included separate account products.)

Disclosures

30. Paragraphs 31-35 detail the separate account disclosure requirements that shall be included within the Life, Accident and Health Annual Statement Blank. Paragraphs 36-38 detail the separate account disclosure requirements that shall be included within the Separate Account Annual Statement Blank.

***NOTE: paragraphs 31-34*** ***omitted for brevity.***

35. The disclosures in *SSAP No. 51R—Life Contracts*, and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* related to the withdrawal characteristics of products include separate account products and shall be completed in the general account disclosures.

SSAP No. 61R— Life, Deposit-Type and Accident and Health Reinsurance

69. For the disclosures noted below, disclose the amount of annuity actuarial reserves and deposit liabilities by withdrawal characteristics for the categories of general account, separate account with guarantees, separate account nonguaranteed as well as the total and percentage of the total, include a separate section for Individual Annuities, Group Annuities, and Deposit-Type Contracts (with no life contingencies). Supplementary contracts with life contingencies are reported in the appropriate Annuities section (Individual or Group).

a. Subject to discretionary withdrawal:

i. With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and;

(a) In a lump sum with adjustments to reflect general changes in interest rates, or asset values since receipt of funds by the entity;

(b) In installments over five years or more, with or without a reduction in the interest rate during the installment period.

ii. At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in paragraph 69.a.v.(d) below;

iii. At fair value, where the withdrawal of funds is payable at current market value of the assets supporting the liabilities, the assets are stated at current fair value, and the liabilities are stated at the current fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk;

iv. Total with adjustment or at fair value;

v. At book value without adjustment (minimal or no charge or adjustment), where the withdrawal of funds is either payable at all times, or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:

(a) In a lump sum without adjustment;

(b) In installments over less than five years, with or without a reduction in interest rate during the installment period;

(c) In a lump sum subject to a fixed surrender charge of less than 5%;

(d) In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified “bail out” rate and the “bail out” rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues.

b. Not subject to discretionary withdrawal;

c. Total gross (Direct + Assumed);

d. Reinsurance ceded;

e. Total net (Net: Total gross (paragraph 69.c.) less Reinsurance ceded (paragraph 69.d.)); and

f. Amount with current surrender charge of 5% or more included in the current year in paragraph 69.a.ii. that will have less than a 5% surrender charge (and thus be reported with the amounts at book value with minimal or no charge or adjustment noted in paragraph 69.a.v.) for the first time within the year subsequent to the balance sheet year. (Note that percentage of total is not required for this item.)

Staff Review Completed by:

**Robin Marcotte – August 2019**

**NAIC Staff**

**Status:**

# On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 51R—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts*, and *SSAP No. 61R— Life, Deposit-Type and Accident and Health Reinsurance,* as illustrated in the staff recommendation,to:

* Add a consistency revision to SSAP No. 51R to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures;
* Correct an identified inconsistency in one of the new disclosures that was added regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%. A clarification is being recommended to ensure consistency in annual statement reporting; and
* Add a cross-reference from SSAP No. 56 to the existing disclosures by withdrawal characteristics in SSAP No. 51R and SSAP No. 61R as the disclosure include separate account products.

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