Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Separate Account – Product Identifiers**

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

This agenda item proposes increased product identifier reporting granularity in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). At the request of regulators, primarily in response to the recent growth of pension risk transfer (PRT) transactions and registered indexed linked annuity (RILA) products that are generally held in insulated separate accounts, improved reporting was requested so regulators can more readily identify and review the products captured in the separate account. This agenda item does not anticipate modifications to *SSAP No. 56—Separate Accounts,* however if supported by the Working Group, would likely result in a proposal to the Blanks (E) Working Group for annual statement instruction modifications.

For example, upon review of the 2019 separate account annual statements filed with the NAIC, it was found that while some reporting entities included reporting details such as “XYZ Company Pension Risk Transfer” (a preferred method of disclosure), most entities grouped their separate account products in 3-4 broad categories. Common categories included variable life, variable annuity, indexed annuity and group variable annuity (the latter of which is likely where PRT’s would be captured).

SSAP No. 56 requires several disclosure elements separated by “product identifier.” These situations include:

* 1.01 – Separate account assets by SEC registration, guarantees, seed money, etc.
* 1.01A – Identification of private placement variable annuities / life insurance (PPVA or PPLI)
* 2.5 – Risk charges
* 4.2 – Investment Process and their treatment (e.g., to policyholder, to GA, or retained in SA)

As detailed in the separate account instructions, “a distinct product identifier shall be used for each product and shall be used consistently throughout the interrogatory.” Even with this direction, most reporting entities appear to be aggregating product types for reporting. This has made it difficult to assess the reserve requirements or guarantees for the specific products. Additionally, regulators have indicated that upon their examination of the product mix general interrogatory in which the assets reflect if they are supported with a guarantee from the general account, due to the broad grouping of products, some products which do not have guarantees were grouped with those that did have guarantees.

Existing Authoritative Literature:

The disclosures for separate account assets are detailed in *SSAP No. 56—Separate Accounts*:

1. The Separate Account Annual Statement Blank shall include detailed information on the characteristics of the separate account assets, specifically categorizing separate account assets in accordance with the following characteristics:
2. **Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated.**
3. **Aggregation of separate account assets from products registered with the SEC and separate account assets from products excluded from registration. In addition to the overall aggregation, this disclosure shall specifically identify separate account assets from private placement variable annuities (PPVA) and private placement life insurance (PPLI). The disclosures in this paragraph (36.b.) are effective December 31, 2018.**
4. Amount of separate account assets that represent seed money, other fees and expenses due to the general account, and additional required surplus amounts. This disclosure shall include the amount of seed money and other fees and expenses currently included in the separate account, as well as the amount of seed money received and repaid to the general account during the current year. This disclosure shall also include information on insulation (if applicable), the time duration for which seed money and other fees and expenses due the general account are retained in the separate account, and information on how whether seed money is invested pursuant to general account directives or in accordance with stated policies and procedures.
5. Identification of the separate account assets in which the investment directive is not determined by a contractholder. (In most instances, having multiple investment choices at the option of a contractholder would be considered a situation in which the investment directive is determined by a contractholder. This is not true for situations in which the asset is invested in a manner that mirrors the investment directives of the general account.) Situations in which the investment directive is not determined by the contractholder (and situations in which the reporting entity is the contractholder) shall include disclosure regarding whether the investments of the respective separate account assets, if included within the general account investments, would have resulted with the reporting entity exceeding any investment limitations imposed on the general account.
6. Identification of the separate account assets in which less than 100% of investment proceeds are attributed to a contractholder. This shall include identification of the separate account investment income attributed to the reporting entity during the reporting period and whether such income was transferred to the general account or reinvested within the separate account. Instances in which such income is reinvested within the separate account shall include disclosure on whether the subsequent investments, if categorized with investments in the general account, would have exceeded investment limitations imposed on the general account.

39. **Identify all products reported as a separate account product under statutory accounting principles and identify whether each product was classified differently under GAAP.** For products that resulted with different classifications between GAAP and SAP, identify the characteristic(s) of the product that prevented it from receiving a separate account classification under GAAP. This disclosure is applicable for all reporting entities. Thus, if GAAP financial statements were not filed, the reporting entity should complete this disclosure as if GAAP financials had been completed.

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| --- |
| **The annual statement instructions as well as an example of note 1.01 are below.**  |
|  As the product identifier is used **throughout the interrogatory, examples of other items potentially impacted are as follows:**1.01A For the products (and related assets) that are not registered with the SEC, identify whether the products are considered private placement variable annuity products or private placement life insurance.

|  |  |
| --- | --- |
| 1Product Identifier | Not Registered with SEC |
| 2Private Placement Variable Annuity | 3Private Placement Life Insurance | 4Other (Not PPVA or PPLI) |
|  | $ |  |  |
|  |  |  |  |
|  |  |  |  |
| Totals | $ |  |  |

**Allocation of Investment Proceeds of Separate Account Activity**4.1 Does the reporting entity have separate account assets in which less than 100% of investment proceeds (net of contract fees and assessments) are attributed to a contract holder? (This should identify any situations where there is a ceiling on investment performance results.)* 1. If yes, provide detail on the net investment proceeds that were attributed to the contract holder, transferred to the general account and reinvested within the separate account:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1Product Identifier | 2Net Investment Proceeds | 3Attributed to Contract Holder | 4Transferred to General Account | 5Reinvested Within the Separate Account |
|  | $ | $ | $ | $ |
|  | $ | $ | $ | $ |
|  | $ | $ | $ | $ |

* 1. Identify all separate account products and identify whether each product was classified within a separate account for GAAP reporting purposes. (For non-GAAP filers, this disclosure should reflect whether the GAAP classification would have been the same if GAAP financials had been completed.) For products that were (or would have been) reported differently, identify which SOP 03-1 condition prevented separate account GAAP classification for that particular product.

|  |  |
| --- | --- |
| 1Product Identifier  | 2Same as GAAP / Condition that Requires GAAP General Account Reporting |
|  |  |
|  |  |

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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): N/A

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the agenda item to solicit comments from state insurance regulators and industry regarding the degree of product identifying details needed to adequately assess the product features and reserve liabilities. Additionally, feedback is requested regarding if a threshold should be established for when aggregate reporting would be permitted.

Staff Review Completed by:

Jim Pinegar - NAIC Staff, October 2020

**Status:**

On November 12, 2020, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as nonsubstantive, and exposed the agenda item to solicit comments from state insurance regulators and industry regarding the degree of product identifying details needed to adequately assess the product features and reserve liabilities in the separate account. Particularly, this is requesting feedback on how to obtain increased product identifier reporting granularity in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). Additionally, feedback is requested regarding if a threshold should be established for when aggregate reporting would be permitted.

On March 15, 2021, the Statutory Accounting Principles (E) Working Group exposed this agenda item with details of a proposed blanks change, which will also be concurrently exposed with the Blanks (E) Working Group. With the proposed blanks changes, there are no proposed revisions to statutory accounting principles.

Consideration of this item will occur during an interim call so that the blanks changes may be reflected in the statutory financials for year-end 2021. Pursuant to this agenda item and regulator comments received, the Working Group is sponsoring blanks agenda item (2021-03BWG) to modify the current General Interrogatory instructions and require that a distinct disaggregated product identifier be used for each product represented. The disaggregation will require that each separate account product filing or policy form to be separately identified. For example, if a company has 5 different separate account group annuities, each annuity shall be separately reported. Additionally, the instructions will indicate that companies may eliminate proprietary information (e.g., such as XYZ company Pension Plan), however such elimination will still require the use of a unique reporting identifiers (such as PRT #1). This disaggregation of reporting will be utilized for all applicable General Interrogatories (e.g., 1.01, 2.4, 4.1) and was at the direct request of regulators and will assist in regulator review so that each product, primarily those in which may potentially expose the general account to funding risk, may be independently examined.

NAIC staff also notes that there is inconsistency in the current reporting of the separate account general interrogatories, as some companies aggregate based on overall product type and other companies already include a disaggregation of all separate account products. With the clarification that “each product” shall be captured, the regulators will have the information necessary to complete assessments and improve consistency in reporting.

An excerpt from the blanks proposal is shown below:

A distinct disaggregated product identifier shall be used for each product and shall be used consistently throughout the interrogatory. Disaggregation of reporting shall be such that each product filing or policy form is separately identified. For example, if a company has 5 different separate group annuities, each annuity shall be separately reported. (Companies may eliminate proprietary information however such elimination will require the use of unique reporting identifiers).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 | Separate Account Assets | 4 | 5 | 6 | 7 |
|  | 2 | 3 | Guarantees |  |  |  |
| Product Identifier | Registered with SEC | Not Registered with SEC | Associated with the Product Yes/No | Seed Money | Fees and Expenses Due to the General Account | Additional Required Surplus Amounts |
| 1.01A Pension Risk Transfer Group Annuities |  |  |  |  |  |  |
|  | $ | $ |  | $ | $ | $ |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Total Pension Risk Transfer Group Annuities | $ | $ |  | $ | $ | $ |
| 1.01B All Other Group Annuities |  |  |  |  |  |  |
|  | $ | $ |  | $ | $ | $ |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Total All Other Group Annuities | $ | $ |  | $ | $ | $ |
| 1.01C Registered Index Linked Annuities Individual Annuities |  |  |  |  |  |  |

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