Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Pension Risk Transfer – Separate Account Disclosure**

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

This agenda item proposes increased product identification and disclosure of pension risk transfer (PRT) transactions in the separate account financial statements. At the request of regulators, in response to the recent growth of PRT, improved reporting is sought so regulators can more readily identify and analyze such transactions. Regulators requested several enhancements, including separated PRT reporting and improved PRT disclosure regarding reserves, associated assets, and general account exposure.

As a brief background, a pension risk transfer is when a defined-benefit pension provider seeks to remove some or all of its obligation to pay guaranteed retirement income to plan participants. In these transactions, the pension providers will generally transfer assets to an insurer, for which the insurer assumes the annuity risk for plan participants. According to AM Best, there were over 500 single premium pension contract buyouts totaling $28 billion in 2019. Due to organizations wanting to alleviate their pension liability, it is expected that PRT transactions will not subside in the near future.

Currently, the most specific details concerning PRT transactions are generally captured/disclosed in question 1.01 (product mix) of the separate account general interrogatories (GI 1.01). For reference, GI 1.01 is shown below:

1.01 Identify the product types in the separate account, quantify the assets associated with those products, indicate if there are any guarantees associated with those products, quantify seed money and quantify other fees and expenses due to the general account:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1Product Identifier | Separate Account Assets | 4Guarantees Associated withthe ProductYes/No | 5Seed Money | 6Fees and ExpensesDue to theGeneral Account | 7AdditionalRequired SurplusAmounts |
| 2Registered with SEC | 3Not Registered with SEC |
|  | $ | $ |  | $ | $ | $ |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Totals | $ | $ | XXX | $ | $ | $ |

Upon review of the 2019 separate account annual statements filed with the NAIC, it was found that most entities did not individually detail PRT activity, but rather broadly combine this product into other product categories (i.e. group variable annuity).

While other details of the broadly categorized products are captured in various other general interrogatories (as shown below in Existing Authoritative Literature), this agenda item, at the request of regulators, proposes enhanced detailed reporting requirements for pension risk transfer products and transactions in the scope of *SSAP No. 56—Separate Accounts.*

Existing Authoritative Literature:

There are numerous disclosure elements in *SSAP No. 56—Separate Accounts* that would be applicable for PRT transactions (the most relevant disclosures have been bolded below). However as described above, PRTs are generally reported in an aggregated manner with other similar products, thus the disclosures below do not currently provide the level of detail sought by regulators.

### Disclosures

1. The general account financial statement shall include detailed information on the reporting entity’s separate account activity. These disclosures shall include:

a. **A narrative of the general nature of the reporting entity’s separate account business.**

**b. Identification of the separate account assets that are legally insulated from the general account claims.**

c. **Identification of the separate account products that have guarantees backed by the general account. This shall include:**

**i. Amount of risk charges paid by the separate account to the general account for the past five (5) years as compensation for the risk taken by the general account; and**

**ii. Amount paid by the general account due to separate account guarantees during the past five (5) years.**

d. Discussion of securities lending transactions within the separate account, separately including the amount of any loaned securities within the separate account, and if policy and procedures for the separate account differ from the general account.

1. For each grouping (as detailed in paragraph 33), the following shall be disclosed:
2. Premiums, considerations or deposits received during the year;
3. **Reserves by the valuation basis of the investments supporting the reserves at the financial statement date. List reserves for separate accounts whose assets are carried at fair value separately from those whose assets are carried at amortized cost/book value;**
4. **Reserves by withdrawal characteristics**, including whether or not the separate account is subject to discretionary withdrawal. For reserves subject to discretionary withdrawal, the below categories are included if applicable:
5. With market value adjustment;
6. at book value without market value adjustment and with surrender charge of 5% or more;
7. at fair value;
8. at book value without market value adjustment and with surrender charge of less than 5%;
9. Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.
10. For the disclosures required in paragraph 32, separate accounts shall be addressed in the following groupings (which are the same as those used for risk-based capital):
11. **Separate Accounts with Guarantees**:
12. Indexed separate accounts, which are invested to mirror an established index which is the basis of the guarantee;

ii. Nonindexed separate accounts, with reserve interest rate at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%;

iii. Nonindexed separate accounts, with reserve interest rate at greater than 4% and/or fund long-term interest guarantee in excess of a year that exceeds 4%.

1. Nonguaranteed Separate Accounts—Variable separate accounts, where the benefit is determined by the performance and/or fair value of the investments held in the separate account. Include variable accounts with incidental risks, nominal expense, and minimum death benefit guarantees.
2. **Provide a reconciliation of the amount reported as transfers to and from separate accounts in the Summary of Operations of the separate accounts statement and the amount reported as net transfers to or from separate accounts in the Summary of Operations of the general accounts statement**.
3. 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.
4. 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:
5. **Identification of separate account assets that are legally insulated from the general account and those which are not legally insulated**.
6. **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.**
7. 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.
8. 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.
9. 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.
10. For all separate account assets not reported at fair value, indicate the measurement basis (amortized cost or other method) for each asset (or asset class) and whether the measurement method was grandfathered in under the transition guidance in this SSAP, or whether the measurement method is allowed under a prescribed or permitted practice. This disclosure shall include a comparison of the assets’ reported value to fair value with identification of the resulting unrealized gain/loss that would have been recorded if the assets had been reported at fair value.
11. For all separate accounts that include securities lending transactions, disclose the reporting entity’s use and policy of securities lending within the separate account, including the amount of loaned securities from the separate account at the reporting date, the percentage of separate account assets lent as of that date, a description for which type of accounts (e.g., book value accounts, market value account accounts) are lent, if the separate account policyholder is notified or approves of such practices, the policy for requiring collateral, whether the collateral is restricted and the amount of collateral for transactions that extend beyond one year from the reporting date. This disclosure requires the entity to provide the following information as of the date of the statement of financial position: (1) the aggregate amount of contractually obligated open collateral positions (aggregate amount of securities at current fair value or cash received for which the borrower may request the return of on demand) and the aggregate amount of contractually obligated collateral positions under 30-day, 60-day, 90-day, and greater than 90-day terms, (2) the aggregate fair value of all securities acquired from the sale, trade and use of the accepted collateral (reinvested collateral), and (3) information about the sources and uses of that collateral.
12. 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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| As previously shown, GI 1.01 is the primary interrogatory which capture PRT transactions, however additional details are captured in the following tables. 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 to solicit comments from state insurance regulators and industry regarding possible modifications to *SSAP No. 56—Separate Accounts*. Depending upon the feedback received, the Working Group would have several options available including, but not limited to, requiring the separate identification of pension risk transfer products (including transactions, guarantees, reserve assumptions, etc.) within existing disclosure requirements or the addition of a new general interrogatory (and perhaps new separate accounting reporting schedules / exhibits) to separate specific product detail that was previously reported in an aggregated format. NAIC staff is open for additional commentary and suggestions, and requests to work with industry and regulators throughout this and any subsequent exposure.

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 possible modifications to *SSAP No. 56—Separate Accounts* specific to pension risk transfer (PRT) products. Depending upon the feedback received, the Working Group would have several options available including, but not limited to, requiring the separate identification of pension risk transfer products (including transactions, guarantees, reserve assumptions, etc.) within existing disclosure requirements or the addition of a new general interrogatory (and perhaps new separate accounting reporting schedules / exhibits) to separate specific product detail that was previously reported in an aggregated format.

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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