Statement of Statutory Accounting Principles No. 52

Deposit-Type Contracts

STATUS

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Deposit-Type Contracts

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for income recognition and policy reserves for all contracts classified as deposit-type contracts defined in *SSAP No. 50—Classifications ~~and Definitions~~ of Insurance or Managed Care Contracts ~~In Force~~* (SSAP No. 50).

SUMMARY CONCLUSION

Introduction

2. As discussed in SSAP No. 50, deposit-type contracts are those contracts that do not subject the reporting entity to any risks arising from policyholder mortality or morbidity. A mortality or morbidity risk is present if, under the terms of the contract, the reporting entity is required to make payments or forego required premiums contingent upon the death or disability (in the case of life and disability insurance contracts) or the continued survival (in the case of annuity contracts) of a specific individual or group of individuals.

3. Deposit-type contracts frequently grant policyholders significant discretion over the amount and timing of deposits and withdrawals. Reporting entities are frequently granted significant discretion over amounts that accrue to or that are assessed against policyholders.

4. Due to the absence of mortality and/or morbidity risk and the discretionary characteristics noted in the preceding paragraph, the accounting principles for income recognition and policy reserves for deposit-type contracts differ from the accounting for life contracts set forth in *SSAP No. 51—Life Contracts,* accident and health contracts established in *SSAP No. 54—Individual and Group Accident and Health Contracts*, and credit insurance contracts as discussed in *SSAP No. 59—Credit Life and Accident and Health Insurance Contracts*.

5. Categories of contracts that may not subject the reporting entity to risks arising from policyholder mortality or morbidity include, but are not limited to, certain types of the following policy categories:

- Supplemental contracts
- Lottery payouts
- Structured settlements
- Guaranteed interest contracts
- Income settlement options
- Dividend and coupon accumulations
- Annuities certain
- Premium and other deposit funds

Income Recognition

6. Contracts issued by a reporting entity that do not incorporate mortality or morbidity risk shall not be accounted for as insurance contracts. Amounts received as payments for such contracts shall not be reported as revenues but shall be recorded directly to an appropriate policy reserve account.[INT 00-03]

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Policy Reserves

7. Statutory policy reserves shall be established for all contractual obligations of the reporting entity arising out of the provisions of the contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. Statutory policy reserves meet the definition of liabilities as defined in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R). The actuarial methodologies referred to in the following paragraph meet the criteria required for reasonable estimates in SSAP No. 5R.

8. The reserving methodologies and assumptions used in computation of policy reserves shall meet the provisions of ~~Appendices~~ A-820 and A-822, and the actuarial guidelines found in Appendix C of this Manual. Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

9. The policy reserve for contracts without life contingencies where the future benefits are fixed and guaranteed (e.g., certain supplemental contracts, lottery payouts, structured settlements, guaranteed interest contracts, income settlement options, annuities certain, and unmatured coupon accumulations) shall be based on the present value of the future guaranteed benefits discounted at the valuation interest rate. The policy reserve for all other contracts (e.g., certain premium and other deposit funds, and dividend and matured coupon accumulations) shall be based on the accumulated amounts paid plus an income accumulation based on the contract provisions, less any withdrawals and applicable surrender charges.

10. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer's obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

11. Policy reserves shall be increased for reinsurance assumed and decreased for reinsurance ceded as further described in *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*.

Structured Settlements

12. Reporting entities that have accepted an assignment of obligations under structured settlements shall record those obligations consistent with the accounting and reporting provided for structured settlements in *SSAP No. 65—Property and Casualty Contracts*.

Cost Recognition

13. Interest credited to deposit-type contracts shall be recorded as an expense in the summary of operations when earned under the terms of the contract. Payments that represent a return of policyholder balances shall not be recorded as expenses. To the extent such payments differ from the recorded reserve, the difference shall be recorded in the summary of operations as a benefit expense.

Change In Valuation Basis

14. A change in valuation basis shall be defined as a change in the interest rate assumption or other factor affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3). Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as

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a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless an actuarial guideline adopted by the NAIC prescribes a specific transition that allows for grading.

Unearned Income

15. Amounts assessed that represent compensation to the reporting entity for services to be provided in future periods and which are required to be refunded upon policy termination are not earned in the period assessed. Such amounts, if not already considered in the policy reserve, shall be reported as unearned income, a liability, and recognized as income as the related services are provided.

Additional Reserves Not Included Elsewhere

16. Additional actuarial liabilities are commonly held for such items as:

a. Surrender values in excess of reserves otherwise required or carried; and

b. Additional reserves required based on asset adequacy analysis as discussed in Appendix A-822.

17. Funding agreements issued to a Federal Home Loan Bank (FHLB) shall be evaluated on an individual basis, and shall be accounted for according to the substance of the individual arrangement and entity licensing. If the arrangement is in substance a funding agreement, including that the funds are used in an investment spread capacity, it shall be accounted for consistent with other funding agreements in accordance with this statement. If the arrangement is in substance a borrowing agreement, it shall be accounted for in accordance with *SSAP No. 15— Debt and Holding Company Obligations*, consistent with other borrowed money.

Disclosures

18. For life and annuity reserves, the financial statements shall disclose the following:

a. A description of reserve practices including the amount of any surrender value promised in excess of the reserve as legally computed;

b. The method of determination of tabular interest on funds not involving life contingencies; and

c. The nature of significant other reserve changes.

19. 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 and the total as follows:

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 reporting entity; and

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(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 19.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.

20. For FHLB agreements accounted for under this statement, include information for the FHLB funding agreements with other reporting and disclosure requirements for deposit-type contracts under this statement and complete additional disclosure requirements in *SSAP No. 30~~—Investments in~~Unaffiliated Common Stock~~ (excluding investments in common stock of subsidiary, controlled or affiliated entities)~~*, paragraph 16.

21. For life insurance claims, disclose the following information regarding the reporting entity’s use of retained asset accounts for beneficiaries. For purposes of this disclosure, retained asset accounts represent settlement of life insurance proceeds, which are retained by the insurance entity within their general account for the benefit of the beneficiaries. Amounts held outside of the insurance entity, for example in a non-insurance subsidiary, affiliated or controlled entity accounted for under *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities~~, A Replacement of SSAP No. 88~~*, such as an interest bearing account established in the beneficiary’s name with a bank or thrift institution (and subject to applicable Federal Deposit Insurance Corporation coverage) are only required to be described in the

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context of the structure of the reporting entity's program in accordance with paragraph 21.a., but quantitative information regarding retained asset accounts transferred outside of the reporting entity are not required. (See illustration in Appendix A.)

a. A narrative description of how the accounts are structured and reported within the reporting entity's financial statements (e.g., as drafts written by the reporting entity and reported within cash and supplemental contracts without life contingencies; as accounts transferred into the beneficiary's name to an affiliated or unaffiliated bank or other financial institution in which the reporting entity has disposed of its liabilities and related assets, etc). This description should include all of the different interest rates paid to retained asset account holders during the reporting year and the number of times changes in rates were made during the reporting year. The description should also include a listing of all applicable fees charged by the reporting entity that are directly or indirectly associated with the retained asset accounts. Also, indicate if the retained asset account is the default method for satisfying life insurance claims.

b. Number and balance of retained asset accounts in force at the end of the current year and prior year segregated within "aging categories" of "up to 12 months," "13 to 24 months," "25 to 36 months," "37 to 48 months," "49 to 60 months," "over 60 months;"

c. Number and balance of retained asset accounts in force at the beginning of the year segregated between individual and group contracts;

d. Number and amount of retained asset accounts issued during the year segregated between individual and group contracts;

e. Investment earnings credited to retained asset accounts segregated between individual and group contracts;

f. Fees and other charges assessed to retained asset accounts during the year segregated between individual and group contracts;

g. Number and amount of retained asset accounts transferred to state unclaimed property funds segregated between individual and group contracts;

h. Number and amount of retained asset accounts closed/withdrawn during the year segregated between individual and group contracts;

i. Number and balance of retained asset accounts in force at the end of the year segregated between individual and group contracts.

22. The disclosures in paragraph 21 are not required in the annual audited financial statements. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

23. This statement incorporates the requirements of ~~Appendices~~ A-235, A-695, A-820, A-822, the Actuarial Standards Board *Actuarial Standards of Practice*, and the actuarial guidelines found in Appendix C of this Manual.

24. This statement rejects *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, *FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, *FASB Statement 120, Accounting and Reporting by Mutual Life Insurance* Enterprises *and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, AICPA *Practice Bulletin No. 8,*

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Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, to Insurance Enterprises, the AICPA *Audit and Accounting Guide—Audits of Stock Life Insurance Companies*, AICPA *Statement of Position 95-1, Accounting for Certain Activities of Mutual Life Insurance Enterprises* relating to accounting and reporting for policy reserves for short and long duration contracts, and *FASB Interpretation No. 40, Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises, an interpretation of FASB Statements No. 12, 60, 97, and 113*.

Effective Date and Transition

25. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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. Guidance in paragraph 17 was previously included within *INT 08-08: Balance Sheet Presentation of Funding Agreements Issued to a Federal Home Loan Bank* and was effective for periods beginning March 15, 2009. Guidance in paragraph 20 related to FHLB agreements was initially effective January 1, 2014.

REFERENCES

Other

- *NAIC Financial Condition Examiners Handbook*
- *Actuarial Standards Board Actuarial Standards of Practice*

Relevant Issue Papers

- *Issue Paper No. 52—Deposit-Type Contracts*
- *Issue Paper No. 110—Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 56—Separate Accounts*

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APPENDIX A – DISCLOSURE ILLUSTRATIONS

The following illustrates the required reporting of paragraph 21.b. in tabular format:

	In Force			
	As of End of Current Year		As of End of Prior Year	
	(a) Number	(b) Balance	(c) Number	(d) Balance
Up to and including 12 Months		$		$
13 to 24 Months		$		$
25 to 36 Months		$		$
37 to 48 Months		$		$
49 to 60 Months		$		$
Over 60 Months		$		$
Total		$		$

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The following illustrates the required reporting of paragraphs 21.c. through 21.i. in tabular format:

	(a) Individual Number	(b) Individual Balance/Amount	(c) Group Number	(d) Group Balance/Amount
Number/Balance of Retained Asset Accounts at the Beginning of the Year		$		$
Number/Amount of Retained Asset Accounts Issued/Added During the Year		$		$
Investment Earnings Credited to Retained Asset Accounts During the Year	N/A		N/A	
Fees and Other Charges Assessed to Retained Asset Accounts During the Year	NA		NA	
Number/Amount of Retained Asset Accounts Transferred to State Unclaimed Property funds During the Year		$		$
Number/Amount of Retained Asset Accounts Closed/Withdrawn During the Year		$		$
Number/Balance of Retained Asset Accounts at the End of the Year		$		$

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