AMERICAN ACADEMY *of* ACTUARIES

GAAP Survey Results
Committee on Life Insurance Financial Reporting (COLIFR)

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Introduction

The American Academy of Actuaries' Committee on Life Financial Reporting (COLIFR) mailed out a US GAAP (Generally Accepted Accounting Practices) survey to US actuaries in 2000. The purpose of this survey was to gather statistical data to inform actuaries working on the development of US GAAP financial statements.

The survey was to provide information as to the "practices followed by companies in preparing US GAAP statements." COLIFR planned to use the survey as a source of information in the development of US GAAP practice notes on a limited number of topics and issues. This represented COLIFR's first survey on US GAAP. It is the objective of COLIFR to use the initial survey to determine a basis for the development of future surveys dealing in selected topics on US GAAP. Based on the results of the first survey, significant information was obtained on how to direct and develop future US GAAP surveys.

As a result of the very limited response to the survey (56 from over 1200 mailings), the credibility is reduced in trying to accomplish our original objects. Based on company size, the following numbers of companies responded:

Size – Life Products	
US GAAP Reserves	Number
■ Less than $100 million	4
■ $100 million but less than $500 million	14
■ $500 million but less than $2 billion	18
■ $2 billion and larger	16
Total	52

Based on ownership structure, the following companies responded:

Ownership Structure	
Structure	Number
■ Stock Publicly Traded	23
■ Stock Privately Held	14
■ Mutual	7
■ Stock Sub of Mutual Company	5
■ Fraternal	1
■ Other	6
Total	56*

*Please note that 4 companies did not have any life business and were either Annuity or A&H companies.

US GAAP accounting has set forth requirements that are stated in general terms which lends itself to more than one interpretation and may not seem to be "on point" for a particular issue. Over time, the very specific applications of generally accepted accounting practices evolves. This evolution is sometimes hastened by the Securities Exchange Commission (SEC) and the American Institute of Certified Public Accounts (AICPA) in their pronouncements and interpretations, which provide further guidance in the interpretations of existing and new accounting standards.

It should be recognized that the information contained in this survey provides data on practices and is not meant to define or indicate what are generally accepted US accounting standards and practices. The Actuarial Standards Board (ASB) did not promulgate this survey, nor are the results binding on any actuary.

The user of this survey should be aware that these were the practices at the time of the survey and generally accepted practices evolve over time. The user should also be aware that many of the company's answers would appear to indicate that various companies have significantly different practices in similar situations. This may not necessarily always be the case. Questions to surveys cannot always fully present all the possible variations of the facts. There may be a number of facts and situations where companies can give seemingly different answers to a given question but are, in fact, using the principles and practices in a consistent manner.

In the survey tables shown in this report, companies were asked to indicate their practice using a coded reply. The term N/A means that the question does not apply and the percent of companies falling into this category is shown. A reply of "0" means that the situation applies, but no action was taken by the company. In the interest of completeness and brevity, the statistics are shown including those companies indicating "not applicable." The user of these notes can easily determine the percentages of companies selecting a given answer with the "N/A" excluded.

It is not the purpose of this survey to precisely determine what is appropriate or not. It is to indicate the practices of actuaries and their relative preference for various methods. The provided selection of answers should not be construed to be a complete list of options. It is only to identify some of the various practices in the industry.

Practice Notes, as published by the American Academy of Actuaries, often take the form of a "question" followed by a discussion of alternatives, solutions, and items to consider. The survey result format provides some of these benefits as it is close to the practice note format because questions are asked and numbers or percents of companies are indicated for various indicated answers. For practical purposes the results shown are usually for "all companies combined" and "stock-publicly traded." The "stock-publicly traded" category was shown separately because it has the most credibility of any of the other ownership groups. COLIFR expects to create new surveys on specific US GAAP topics in more depth, which will enable the development of more complete US GAAP practices in the next year. The purpose of this survey is to expose the membership to a sample survey, observe the results, and to evaluate the interest of the membership in future surveys.

The questions in this survey were designed to address some of the basic principles and some of the more advanced issues in US GAAP. Because this was the first survey on US GAAP, we asked for comments on question formats and for comments on improvements in future surveys. We want to thank those of you that responded.

The number of companies replying to the questions is provided so that the user may determine their own credibility analysis of the results.

In the tables that are shown in this report, the columns headed "% of All Companies" represent all companies in the survey regardless of products written. The tables headed "Stock Publicly Traded" represent all those companies in the report with life products in-force and excludes four companies that are exclusively either Annuity or Accident and Health (A&H) companies.

I. EXPENSES

1. Should a functional cost study be used to allocate expenses?

74% of companies surveyed perform functional cost studies. There was little variation depending on size of the company.

2. How often should the functional cost study be updated as a basis for identifying and allocating deferrable acquisition and maintenance expenses?

<u>Deferrable Acquisition Costs</u>

36% of all companies update annually and 40% periodically (other than annual).

<u>Maintenance Costs</u>

45% of all companies update annually and 34% periodically (other than annual). There was little variation depending on size of the company.

3. How often should actual emerging general expense acquisition costs be identified and deferred for reporting purposes?

Frequency	% of All Companies	Very Large – 2 Billion Plus Life GAAP Reserves
Monthly	31%	38%
Quarterly	35%	50%
Annually	18%	0%
Not based on actual (defer expected or pricing subject to not deferring more than actual)	12%	6%
Other	4%	6%

4. *How often should actual maintenance expenses be identified?*

Frequency	% of All Companies	Very Large – 2 Billion Plus Life GAAP Reserves
Monthly	35%	25%
Quarterly	35%	44%
Annually	20%	13%
Periodically	2%	6%
Other	8%	12%

5. *What percent of the following types of agent compensation and benefits are considered for capitalization as a deferred acquisition cost?*

	Stock-Publicly Traded				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Sales conventions	18%	0%	18%	50%	14%
Persistency bonuses in excess of ultimate	17%	0%	4%	40%	39%
Heaped renewal commissions in excess of ultimate	17%	0%	4%	66%	13%

	All Companies				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Sales conventions	17%	4%	14%	44%	21%
Persistency bonuses in excess of ultimate	17%	0%	4%	36%	43%
Heaped renewal commissions in excess of ultimate	12%	0%	2%	67%	19%

6. *What percent of the following types of field costs other than agent compensation is considered for capitalization as a deferred acquisition cost?*

	Stock-Publicly Traded				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Managers' salaries and benefits	14%	23%	18%	5%	40%
Clerical salaries and benefits	18%	18%	18%	5%	41%
Rent, insurance related to field offices	18%	18%	14%	5%	45%
Systems support to field	25%	20%	10%	0%	45%

	All Companies				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Managers' salaries and benefits	18%	14%	23%	8%	37%
Clerical salaries and benefits	22%	12%	23%	4%	39%
Rent, insurance related to field offices	22%	13%	18%	4%	43%
Systems support to field	37%	18%	10%	2%	33%

7. What percent of the following types of home office expenses are considered for capitalization as a deferred acquisition cost?

	Stock-Publicly Traded				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Marketing executive salaries and benefits	26%	22%	26%	17%	9%
Home office field support	26%	17%	36%	8%	13%
Product specific advertising	31%	4%	26%	22%	17%
General advertising	44%	9%	17%	13%	17%
Senior executive salaries (president, CEO, COO, etc.)	40%	35%	8%	4%	13%
Support department costs (i.e., HR, etc.)	61%	23%	8%	4%	4%

	Medium Size Companies (life reserves between $100M to $500M)				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Marketing executive salaries and benefits	23%	8%	38%	8%	23%
Home office field support	31%	8%	38%	8%	15%
Product specific advertising	15%	0%	0%	54%	31%
General advertising	23%	8%	8%	31%	30%
Senior executive salaries (president, CEO, COO, etc.)	54%	15%	8%	8%	15%
Support department costs (i.e., HR, etc.)	68%	8%	8%	8%	8%

	All Companies				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Marketing executive salaries and benefits	29%	17%	35%	11%	8%
Home office field support	29%	14%	41%	8%	8%
Product specific advertising	26%	8%	25%	26%	15%
General advertising	44%	8%	19%	17%	12%
Senior executive salaries (president, CEO, COO, etc.)	53%	25%	10%	4%	8%
Support department costs (i.e., HR, etc.)	57%	25%	10%	4%	4%

8. What percentage of the following costs are considered maintenance expenses and are included in the GAAP benefit reserves for FAS60, the gross profit for FAS97, or the

gross margin for FAS120 in cases of historical US GAAP accounting (i.e., non-purchase situations)?

	Stock-Publicly Traded				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Field expenses related to servicing policyholders	11%	0%	5%	63%	21%
Actuarial valuation	16%	11%	5%	63%	5%
Accounting – reporting	26%	5%	5%	59%	5%
Comptroller and treasurer	26%	5%	5%	59%	5%
Legal (regular recurring)	21%	16%	16%	42%	5%
President, CEO, COO budgets	31%	11%	21%	32%	5%
Other senior executives (not in marketing)	26%	16%	21%	26%	11%
Audit fees, regulatory fees	32%	5%	16%	42%	5%
Guarantee association assessments	42%	0%	0%	32%	26%
Public and shareholder relations	32%	11%	5%	36%	16%
Charitable and community expenses	47%	10%	0%	32%	11%
Corporate budgeting	21%	11%	5%	52%	11%
Corporate planning	32%	11%	5%	41%	11%

	All Companies				
Item	0%	Less than 50%	50% to 99%	100%	N/A
Field expenses related to servicing policyholders	17%	9%	7%	50%	17%
Actuarial valuation	15%	17%	11%	53%	4%
Accounting – reporting	26%	11%	11%	48%	4%
Comptroller and treasurer	25%	11%	9%	46%	9%
Legal (regular recurring)	26%	19%	11%	40%	4%
President, CEO, COO budgets	32%	19%	13%	32%	4%
Other senior executives (not in marketing)	26%	28%	11%	29%	6%
Audit fees, regulatory fees	35%	9%	7%	45%	4%
Guarantee association assessments	36%	4%	4%	43%	13%
Public and shareholder relations	33%	11%	4%	35%	17%
Charitable and community expenses	44%	11%	2%	35%	8%
Corporate budgeting	30%	11%	7%	45%	7%
Corporate planning	33%	15%	4%	41%	7%

9. ***For UL and FPDA products, should the first year commission be reduced by the ultimate renewal rate in determining the amount of deferred acquisition costs?***

UL (All Companies)
21 of 23 responding companies answered "yes".

FPDA (All Companies)
9 of 20 responding companies answered "yes".

10. ***Do excess commission deferrals take into account agent termination rates?***

18% responded "yes". However, 46% of the respondents indicated that renewal commissions are not vested (All Companies).

11. ***Do you capitalize the excess first year (teaser) rates of credited interest to FAS97 policyholders?***

Stock-Publicly Traded	All Other	All Companies
15% responded yes (3 of 20)	28% responded yes (8 of 29)	22% responded yes (11 of 49)
35% responded no (7 of 20)	24% responded no (7 of 29)	29% responded no (14 of 49)
50% responded not applicable (no teaser rates) (10 of 20)	48% responded not applicable (14 of 29)	49% responded not applicable (24 of 49)

12. ***For UL products with level or declining COI's, do you set up any unreleased profit/revenue liability to prevent fronting of profits?***

Stock-Publicly Traded	All Other	All Companies
35% responded yes (7 of 20)	17% responded yes (5 of 30)	24% responded yes (12 of 50)
15% responded no (3 of 20)	7% responded no (2 of 30)	10% responded no (5 of 50)
50% responded not applicable (10 of 20)	76% responded not applicable (23 of 30)	66% responded not applicable (33 of 50)

13. Should implied COI charges, in cases where first year COI charges are zero or very low, be capitalized or go to reduce first year loads?

Stock-Publicly Traded	All Other	All Companies
5% responded yes (1 of 21)	0% responded yes (0 of 29)	2% responded yes (1 of 50)
29% responded no (6 of 21)	3% responded no (1 of 29)	14% responded no (7 of 50)
66% responded not applicable (14 of 21)	97% responded not applicable (28 of 29)	84% responded not applicable (42 of 50)

II. AMORTIZATION OF DAC

1. Do you use actual emerging inforce to amortize FAS60 DAC?

	Stock-Publicly Traded	All Companies
Yes	90%	88%
No	10%	12%

2. Over what time period do you amortize FAS60 DAC?

	Stock-Publicly Traded	All Companies
Premium pay period	50%	50%
Less than premium pay period (77 years)	45%	40%
Other	5%	10%

3. For FAS60 life products, do you "lock-in" all assumptions at issue in the amortization of DAC?

	Stock-Publicly Traded	All Companies
Yes	95%	92%
No	5%	8%

Comment

In cases where loss recognition does not apply, some companies interpret FAS60 to indicate that lapse rates, if significant, can be unlocked with a resulting set of new DAC and reserve factors.

4. Do you allow gross margins (FAS120) to go negative in the amortization process?

	Stock-Publicly Traded	All Other	All Companies
Yes, but only to the extent there are positive margins remaining at the plan level	13% (1 of 8)	36% (5 of 14)	27% (6 of 22)
No. Set the negative margin equal to zero	62% (5 of 8)	50% (7 of 14)	55% (12 of 22)
Other	25% (2 of 8)	14% (2 of 14)	18% (4 of 22)

5. ***Do you allow gross GAAP profits (FAS97) to go negative in the amortization process?***

	Stock-Publicly Traded	All Other	All Companies
Yes, but only to the extent there are remaining positive margins at the plan level	45% (9 of 21)	24% (5 of 21)	33% (14 of 42)
No. Set the negative margin equal to zero	50% (11 of 21)	71% (15 of 21)	62% (26 of 42)
Other	5% (1 of 21)	5% (1 of 21)	5% (2 of 42)

6. ***What discount rate do you use to discount gross GAAP profits (FAS97) and to accrue interest on DAC?***

	Stock-Publicly Traded	All Other	All Companies
Lock in credited rate at inception	35% (7 of 20)	35% (8 of 23)	35% (15 of 43)
Reset to current credited rate	55% (11 of 20)	47% (11 of 23)	51% (22 of 43)
Other	10% (2 of 20)	18% (4 of 23)	14% (6 of 43)

7. ***What discount rate do you use to discount gross margins (FAS120) and accrue interest on DAC?***

	Stock-Publicly Traded	All Other	All Companies
Lock in credited rate at inception	50% (6 of 12)	39% (7 of 18)	43% (13 of 30)
Reset to current credited rate	42% (5 of 12)	39% (7 of 18)	40% (12 of 30)
Other	8% (1 of 12)	22% (4 of 18)	17% (5 of 30)

8. ***How often do you unlock for <u>future assumption changes</u> underlying DAC amortization schedules (FAS97, FAS120)?***

	Stock-Publicly Traded	All Other	All Companies
Quarterly	10% (2 of 20)	0% (0 of 26)	4% (2 of 46)
Yearly	40% (8 of 20)	77% (20 of 26)	61% (28 of 46)
Periodically	50% (10 of 20)	23% (6 of 26)	35% (16 of 46)

9. How often do you use actual emerging sources of earnings in DAC amortization (FAS97, FAS120)?

	Stock-Publicly Traded	All Other	All Companies
Monthly	5% (1 of 19)	23% (6 of 26)	16% (7 of 45)
Quarterly	73% (14 of 19)	42% (11 of 26)	56% (25 of 45)
Semi-Annual	0% (0 of 19)	0% (0 of 26)	0% (0 of 45)
Annual	11% (2 of 19)	35% (9 of 26)	24% (11 of 45)
Other	11% (2 of 19)	0% (0 of 26)	4% (2 of 45)

10. How often do you "refresh" the inventory used to project future gross GAAP profits/margins for amortization of DAC purposes?

	Stock-Publicly Traded	All Other	All Companies
Quarterly	30% (6 of 20)	19% (5 of 26)	24% (11 of 46)
Semi-Annual	5% (1 of 20)	4% (1 of 26)	4% (2 of 46)
Annual	50% (10 of 20)	62% (16 of 26)	57% (26 of 46)
Other	15% (3 of 20)	15% (4 of 26)	15% (7 of 46)

11. For deferred annuities without significant mortality risk, what methodology is used to amortize DAC?

	Stock-Publicly Traded	All Other	All Companies
Constant yield method	11% (2 of 19)	24% (6 of 25)	18% (8 of 44)
In proportion to gross GAAP profits	89% (17 of 19)	72% (18 of 25)	80% (35 of 44)
Other	0% (0 of 19)	4% (1 of 25)	2% (1 of 44)

12. How is the gross GAAP profit for amortization purposes calculated for products that have a first year bonus interest rate?

	Stock-Publicly Traded	All Other	All Companies
Do not have bonus rates	53% (10 of 19)	34% (9 of 26)	42% (19 of 45)
Exclude from the gross profits	16% (3 of 19)	27% (7 of 26)	22% (10 of 45)
Include in gross profits	31% (6 of 19)	31% (8 of 26)	31% (14 of 45)
Other	0% (0 of 19)	8% (2 of 26)	5% (2 of 45)

13. In the development of future GAAP margins/profits, do you use yield rates based on actual assets backing the reserves (i.e., segmented)?

	Stock-Publicly Traded	All Other	All Companies
Yes	45% (9 of 20)	35% (9 of 26)	39% (18 of 46)
No (use assumed yield and spread)	55% (11 of 20)	65% (17 of 26)	61% (28 of 46)

14. In producing gross GAAP margins/profits, do you use the results from a series of future interest rate scenarios?

	Stock-Publicly Traded	All Other	All Companies
Yes	0% (0 of 20)	8% (2 of 25)	5% (2 of 45)
No (use level future interest rate scenario)	90% (18 of 20)	76% (19 of 25)	82% (37 of 45)
Other	10% (2 of 20)	16% (4 of 25)	13% (6 of 45)

15. For FAS90/FAS120 products, do you need to keep a separate amortization schedule by year of issue?

	Stock-Publicly Traded	All Other	All Companies
Project margins/profits by year of issue and amortize DAC by year of issue	65% (13 of 20)	73% (19 of 26)	69% (32 of 46)
Project margins/profits by year of issue for recent issue years and aggregate older blocks and amortize DAC accordingly	25% (5 of 20)	19% (5 of 26)	22% (10 of 46)
Other	10% (2 of 20)	8% (2 of 26)	9% (4 of 46)

16. At what level are sources of earnings developed in the amortization of DAC when unlocking for actual emerging mortality experience?

	Stock-Publicly Traded	All Other	All Companies
Plan/age/duration	25% (5 of 20)	11% (3 of 26)	17% (8 of 46)
Plan/duration (all ages combined)	25% (5 of 20)	27% (7 of 26)	26% (12 of 46)
Plan (all ages and durations combined)	0% (0 of 20)	11% (3 of 26)	7% (3 of 46)
Groups of similar plans by age/duration	25% (5 of 20)	15% (4 of 26)	20% (9 of 46)
Groups of similar plans (all ages and durations combined)	25% (5 of 20)	28% (7 of 26)	26% (12 of 46)
Other	0% (0 of 20)	8% (2 of 26)	4% (2 of 46)

17. For new business, what is the level of aggregation used for testing for recoverability?

	Stock-Publicly Traded	All Other	All Companies
Plan/issue age basis	0% (0 of 23)	10% (3 of 30)	6% (3 of 53)
Plan basis (all ages, sexes and smoker status combined)	9% (2 of 23)	20% (6 of 30)	15% (8 of 53)
Product type (UL vs WL vs Term)	61% (14 of 23)	33% (10 of 30)	45% (24 of 53)
Line of business (life vs Annuity vs A&H)	30% (7 of 23)	20% (6 of 30)	24% (13 of 53)
Total company (all LOB's combined)	0% (0 of 23)	10% (3 of 30)	6% (3 of 53)
Other	0% (0 of 23)	7% (2 of 30)	4% (2 of 53)

18. For inforce business, what is the level of aggregation used for testing for loss recognition?

	Stock-Publicly Traded	All Other	All Companies
Plan/issue age basis	0% (0 of 22)	3% (1 of 29)	2% (1 of 51)
Plan basis (all ages, sexes and smoker status combined)	9% (2 of 22)	10% (3 of 29)	10% (5 of 51)
Product type (UL vs WL vs Term)	55% (12 of 22)	28% (8 of 29)	39% (20 of 51)
Line of business (life vs Annuity vs A&H)	27% (6 of 22)	45% (13 of 29)	37% (19 of 51)
Total company	4.5% (1 of 22)	7% (2 of 29)	6% (3 of 51)
Other	4.5% (1 of 22)	7% (2 of 29)	6% (3 of 51)

19. In performing loss recognition testing on inforce blocks, which experience assumptions are considered?

	Stock-Publicly Traded	All Other	All Companies
Mortality/morbidity	74% (17 of 23)	73% (22 of 30)	74% (39 of 53)
Lapses	70% (16 of 23)	80% (24 of 30)	75% (40 of 53)
Yields/spreads	65% (15 of 23)	83% (25 of 30)	75% (40 of 53)
Maintenance expenses	61% (14 of 23)	77% (23 of 30)	70% (37 of 53)
Overhead expenses	35% (8 of 23)	30% (9 of 30)	32% (17 of 53)
Other	9% (2 of 23)	0% (0 of 30)	4% (2 of 53)

20. In performing loss recognition testing on inforce blocks, which actions/assumptions would you use in performing this test for DAC recoverability?

Situation	Stock-Publicly Traded	All Other	All Companies
Include inflation	64% (16 of 25)	50% (14 of 28)	56% (30 of 53)
Include inflation but partially offset by assumed growth in inforce	24% (6 of 25)	35% (10 of 28)	30% (16 of 53)
If necessary to show recoverability, you would provide for some future mortality improvement	0% (0 of 25)	11% (3 of 28)	6% (3 of 53)
You would perform testing under a variety of yield curves using actual assets to reach a conclusion	12% (3 of 25)	0% (0 of 28)	6% (3 of 53)
If necessary to show recoverability, you would provide for some rise in future interest rates and spreads given the current yield curves	0% (0 of 25)	4% (1 of 28)	2% (1 of 53)

21. Which of the following management actions would you reflect in loss recognition testing? (Select all that apply)

Situation	Stock-Publicly Traded	All Other	All Companies
Management indicates that a COI rate increase will be implemented in the next 12 months. There are no regulatory issues in the rate increases.	70% (16 of 23)	57% (17 of 30)	66% (35 of 53)
Management indicates it will raise COI rates several years into the future. You include the COI increases in your current testing with the increase effective in the indicated future year.	17% (4 of 23)	13% (4 of 30)	15% (8 of 53)
Possible rate increases are sufficient to prevent loss recognition. However, management indicates that current and future losses are to be considered period costs as it can get increases if it desires.	9% (2 of 23)	10% (3 of 30)	9% (5 of 53)
Interest spreads over recent years are insufficient to recover DAC. Management indicates that the spreads will be increased starting in a few years. You increase the spreads in the testing starting at the distant future date indicated by management. DAC is now recoverable.	9% (2 of 23)	20% (6 of 30)	15% (8 of 53)

22. Current portfolio interest spreads are sufficient to recover DAC. However, spreads based on the new money rates are not sufficient to recover DAC. There are no other ways to generate additional profits other than spreads. A test is made to measure the declining portfolio rate as inforce assets mature and new cash flows are invested at the current new money rates. DAC is reexamined for loss recognition and DAC is still not fully recoverable. Which of the following actions would you take?

Situation	Stock-Publicly Traded	All Other	All Companies
Do not write off DAC since current portfolio rates are sufficient	21% (3 of 14)	22% (4 of 18)	22% (7 of 32)
Write off DAC based on future portfolio yields reflecting a decline in yield to the current new money rates	72% (10 of 14)	67% (12 of 18)	69% (22 of 32)
Retest using a rising new money interest rate scenario which keeps the future portfolio rates higher in support of reducing DAC write-offs	7% (1 of 14)	11% (2 of 18)	9% (3 of 32)
Other	0% (0 of 14)	0% (0 of 18)	0% (0 of 32)

23. Are assets segmented for DAC amortization and loss recognition purposes?

	Stock-Publicly Traded	All Other	All Companies
Yes	63% (12 of 19)	39% (11 of 28)	49% (23 of 47)
No	37% (7 of 19)	61% (17 of 28)	51% (24 of 47)

24. ***When assets are segmented for GAAP purposes, which of the following applies for FAS97/FAS120 business?***

Situation	Stock-Publicly Traded	All Other	All Companies
Assets when assigned to a product group stay in that group until maturity or sale	45% (9 of 20)	35% (9 of 26)	33% (15 of 46)
Limited amounts of assets are reallocated among plan groups	35% (7 of 20)	23% (6 of 26)	28% (13 of 46)
Full reallocations are permitted	10% (2 of 20)	4% (1 of 26)	7% (3 of 46)
Realized capital gains/losses are assigned to the product group where the asset was held at the beginning of the financial reporting period	40% (8 of 20)	12% (3 of 26)	24% (11 of 46)
Realized capital gains/losses are assigned to the product group where the asset was held at the time of sale	45% (9 of 20)	35% (9 of 26)	39% (18 of 46)
Other	10% (2 of 20)	0% (0 of 26)	4% (2 of 46)

25. ***For policy conversions, when would you carry the DAC on the original policy over to the new policy?***

Situation	Stock-Publicly Traded	All Other	All Companies
FAS97 Life to FAS97 Life	9% (2 of 22)	22% (6 of 27)	16% (8 of 49)
FAS60 Term to FAS60 Permanent	9% (2 of 22)	7% (2 of 27)	8% (4 of 49)
FAS60 Permanent to FAS60 Permanent	14% (3 of 22)	15% (4 of 27)	14% (7 of 49)
FAS60 Term to FAS60 Term	14% (3 of 22)	15% (4 of 27)	14% (7 of 49)

III. BENEFIT RESERVES

1. How often do you perform mortality/morbidity studies which are at a level that would be reasonably sufficient to set or evaluate GAAP assumptions?

	Stock-Publicly Traded			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yearly	60% (9 of 15)	65% (11 of 17)	53% (9 of 17)	67% (16 of 9)
Every two years or longer	33% (5 of 15)	29% (5 of 17)	29% (5 of 17)	0% (0 of 9)
No studies	7% (1 of 15)	6% (1 of 17)	18% (3 of 17)	33% (3 of 9)

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yearly	58% (18 of 31)	66% (25 of 38)	54% (20 of 37)	68% (15 of 22)
Every two years or longer	32% (10 of 31)	26% (10 of 38)	32% (12 of 37)	9% (2 of 22)
No studies	10% (3 of 31)	8% (3 of 38)	14% (5 of 37)	23% (5 of 22)

2. How do you set your GAAP mortality/morbidity assumptions?

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Company derived table based on actual experience	23% (7 of 31)	26% (10 of 38)	22% (8 of 37)	38% (8 of 21)
Industry table adjusted to reflect your experience	64% (20 of 31)	63% (24 of 38)	67% (25 of 37)	43% (9 of 21)
All other	13% (4 of 31)	11% (4 of 38)	11% (4 of 37)	19% (4 of 21)

3. How often do you perform lapse studies which would be at a level sufficient to set or evaluate GAAP assumptions?

	Stock-Publicly Traded			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yearly	73% (11 of 15)	76% (13 of 17)	71% (12 of 17)	89% (8 of 9)
Every two years or longer	20% (3 of 15)	18% (3 of 17)	23% (4 of 17)	0% (0 of 9)
No studies	7% (1 of 15)	6% (1 of 17)	6% (1 of 17)	11% (1 of 9)

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yearly	61% (19 of 31)	66% (25 of 38)	60% (22 of 37)	81% (17 of 21)
Every two years or longer	26% (8 of 31)	24% (9 of 38)	32% (12 of 37)	10% (2 of 21)
No studies	13% (4 of 31)	10% (4 of 38)	8% (3 of 37)	9% (2 of 21)

4. Do you put in a provision for mortality improvement in setting reserves?

	Stock-Publicly Traded			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yes, less than 1% yearly for a specified time	6% (1 of 16)	10% (2 of 20)	10.5% (2 of 19)	9% (1 of 11)
Yes, between 1% and 2% yearly for a limited time	0% (0 of 16)	0% (0 of 20)	0% (0 of 19)	0% (0 of 11)
No	88% (14 of 16)	85% (17 of 20)	79% (15 of 19)	73% (8 of 11)
Other	6% (1 of 16)	5% (1 of 20)	10.5% (2 of 19)	18% (2 of 11)

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yes, less than 1% yearly for a specified time	6% (2 of 33)	7% (3 of 41)	10.5% (4 of 38)	9% (2 of 23)
Yes, between 1% and 2% yearly for a limited time	3% (1 of 33)	2.5% (1 of 41)	0% (0 of 38)	0% (0 of 23)
No	88% (29 of 33)	88% (36 of 41)	79% (30 of 38)	78% (18 of 23)
Other	3% (1 of 33)	2.5% (1 of 41)	10.5% (4 of 38)	13% (3 of 23)

5. Do you assume any future increase or decrease in interest earnings rates before PAD's for GAAP?

	Stock-Publicly Traded			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
No, assume interest remains level	85% (11 of 13)	87% (13 of 15)	83% (10 of 12)	100% (5 of 5)
Yes, assume some increase	0% (0 of 13)	0% (0 of 15)	0% (0 of 12)	0% (0 of 5)
Yes, assume some decrease	15% (2 of 13)	13% (2 of 15)	17% (2 of 12)	0% (0 of 5)

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
No, assume interest remains level	76% (22 of 29)	75% (27 of 36)	83% (24 of 29)	81% (13 of 16)
Yes, assume some increase	0% (0 of 29)	0% (0 of 36)	3% (1 of 29)	6% (1 of 16)
Yes, assume some decrease	24% (7 of 29)	25% (9 of 36)	14% (4 of 29)	13% (2 of 16)

6. Do you provide for inflation in the GAAP maintenance expense assumptions?

	All Companies			
	Traditional Life – Permanent Non-Par	Traditional Life – Term Non-Par	UL	VUL
Yes	45% (14 of 31)	46% (18 of 39)	54% (19 of 35)	43%(9 of 21)
No	45% (14 of 31)	46% (18 of 39)	34% (12 of 35)	38% (8 of 21)
Reduction in maintenance expenses	3% (1 of 31)	3% (1 of 39)	6% (2 of 35)	9.5% (2 of 21)
Other	7% (2 of 31)	5% (2 of 39)	6% (2 of 35)	9.5% (2 of 21)

7. For FAS60 products, how long has it been since a new GAAP era of assumptions was introduced for FAS60 products?

	Stock-Publicly Traded	All Other	All Companies
Less than one year	33% (7 of 21)	30% (8 of 27)	31% (15 of 48)
Between 1 to 2 years	24% (5 of 21)	30% (8 of 27)	27% (13 of 48)
More than 2 years but less than 3 years	10% (2 of 21)	15% (4 of 27)	13% (6 of 48)
More than 3 years but less than 4 years	14% (3 of 21)	4% (1 of 27)	8% (4 of 48)
4 or more years	19% (4 of 21)	21% (6 of 27)	21% (10 of 48)

8. Within the last four years, what was the need for a new FAS60 GAAP era?

	Stock-Publicly Traded	All Other	All Companies
Interest only	13% (2 of 15)	6% (1 of 18)	9% (3 of 33)
Mortality/morbidity only	33% (5 of 15)	17% (3 of 18)	24% (8 of 33)
Lapses only	0% (0 of 15)	0% (0 of 18)	0% (0 of 33)
Maintenance expense only	0% (0 of 15)	0% (0 of 18)	0% (0 of 33)
Combination	54% (8 of 15)	77% (14 of 18)	67% (22 of 33)

9. For indeterminate premium plans that are classified as FAS60, what best describes the practice for setting provisions for adverse deviation?

	Stock-Publicly Traded	All Other	All Companies
No provisions	0% (0 of 20)	0% (0 of 28)	0% (0 of 48)
Lower than another comparable guaranteed premium product	5% (1 of 20)	14% (4 of 28)	11% (5 of 48)
Same as of guaranteed premium products	75% (15 of 20)	39% (11 of 28)	54% (26 of 48)
Other	5% (1 of 20)	4% (1 of 28)	4% (2 of 48)
Not Applicable	15% (3 of 20)	43% (12 of 28)	31% (15 of 48)

10. For UL products with inforce guarantees, do you allow the account value to go negative for reporting purposes?

	Stock-Publicly Traded	All Other	All Companies
Not Applicable	36.5% (8 of 22)	45% (12 of 27)	41% (20 of 49)
Yes, aggregate with other positive amounts at the plan level subject to a minimum of zero	27% (6 of 22)	7% (2 of 27)	16% (8 of 49)
No, set equal to zero at the policyholder level	36.5% (8 of 22)	48% (13 of 27)	43% (21 of 49)

11. For FAS97 products with positive future gross GAAP profits followed by negative future GAAP profits, what is your practice in funding for these losses?

	Stock-Publicly Traded	All Other	All Companies
Fund the future losses as a level percent of positive margins (at the plan level)	41% (7 of 17)	9% (2 of 23)	23% (9 of 40)
Group the plan with other plans with positive margins	6% (1 of 17)	61% (14 of 23)	37% (15 of 40)
Other	53% (9 of 17)	30% (7 of 23)	40% (16 of 40)

12. For FAS97 products with future interest bonuses or retroactive benefits on specified dates, how are extra reserves established?

	Stock-Publicly Traded	All Other	All Companies
Build up reserves as a level percentage of profit margins prior to bonus date at the plan level	47% (9 of 19)	26% (5 of 19)	37% (14 of 38)
Build up reserves as a level percentage of profit margins prior to bonus date including plans without such benefits	11% (2 of 19)	16% (3 of 19)	13% (5 of 38)
Other	42% (8 of 19)	58% (11 of 19)	50% (19 of 38)

IV. PURCHASE GAAP

1. Does PGAAP apply to your company?

	Stock-Publicly Traded	All Other	All Companies
No	22% (5 of 23)	54% (17 of 31)	41% (22 of 54)
Yes, acquired entity	43% (10 of 23)	23% (7 of 31)	31% (17 of 54)
Yes, acquiring entity	35% (8 of 23)	23% (7 of 31)	28% (15 of 54)

2. For PGAAP reserves on FAS60 business, which method best describes your company practice?

	Stock-Publicly Traded	All Other	All Companies
Deferred Valuation Premium method (DVP)	42% (8 of 19)	24% (3 of 13)	34% (11 of 32)
Deferred Initial Reserve method (DIR)	37% (7 of 19)	38% (5 of 13)	38% (12 of 32)
No FAS60 business or insignificant amount with GAAP set equal to statutory	21% (4 of 19)	38% (5 of 13)	28% (9 of 32)
Other	0% (0 of 19)	0% (0 of 13)	0% (0 of 32)

3. Under the DVP method, how are valuation net premiums determined?

	Stock-Publicly Traded	All Other	All Companies
A single percent rate of the gross premium was selected	100% (4 of 4)	0% (0 of 7)	36% (4 of 11)
A single percent rate at the product level	0% (0 of 4)	29% (2 of 7)	18% (2 of 11)
A derived method which produces a rate at the plan/age cell basis (i.e. use historical GAAP methodology but use PGAAP assumptions from issue date to produce current GAAP reserves	0% (0 of 4)	71% (5 of 7)	46% (5 of 11)

4. *Under the DIR method, how are initial reserves defined?*

	Stock-Publicly Traded	All Other	All Companies
Set PGAAP reserve equal to pre-purchase GAAP reserve	43% (3 of 7)	0% (0 of 4)	27% (3 of 11)
Set PGAAP reserve equal to statutory reserve	14% (1 of 7)	0% (0 of 4)	9% (1 of 11)
Set PGAAP reserve equal to a percentage of the statutory reserves	29% (2 of 7)	50% (2 of 4)	37% (4 of 11)
Other	14% (1 of 7)	50% (2 of 4)	27% (3 of 11)

5. *For FAS60 products, what portion of the gross premium was used to develop the PVP or Value of Business Acquired (VOBA)?*

	Stock-Publicly Traded	All Other	All Companies
Applied a risk discount rate to the present value to all remaining gross premium after providing for <u>benefits</u> and <u>expenses</u>	67% (10 of 15)	37% (3 of 8)	57% (13 of 23)
Applied a risk discount rate to all remaining gross premium after providing for <u>benefits</u>, <u>expenses</u>, and a reasonable <u>level of profits</u> thus allowing a percentage of the premium to flow directly to earnings	13% (2 of 15)	50% (4 of 8)	26% (6 of 23)
Other	20% (3 of 15)	13% (1 of 8)	17% (4 of 23)

6. *For FAS97 products, how was PVP/VOBA developed?*

	Stock-Publicly Traded	All Other	All Companies
Applied a risk discount rate to 100% of the best estimate future PGAAP gross GAAP profits	60% (9 of 15)	80% (8 of 10)	68% (17 of 25)
Applied a risk discount rate to less than 100% of the best estimate future PGAAP gross GAAP profits	7% (1 of 15)	10% (1of 10)	8% (2 of 25)
Used the pretax statutory appraisal with an adjustment for the difference in statutory and GAAP reserves	20% (3 of 15)	10% (1 of 10)	16% (4 of 25)
Other	13% (2 of 15)	0% (0 of 10)	8% (2 of 25)

7. ***In certain cases, PGAAP accounting permits a restatement of the initial PGAAP balance sheet to allow more time to value assets and liabilities. This window, depending upon the situation may be for up to twelve months. Under what situations would you develop revised reserves, PVP, and resulting good will?***

Situation	Stock-Publicly Traded	All Other	All Companies
Assumptions studies were not completed in time to create the initial PGAAP reserves and PVP for the first quarterly financial reporting after the purchase. Rough assumption estimates based on limited available data in combination with industry data had to be used. Studies were later completed based on experience prior to acquisition (no emerging experience after acquisition was used) and new reserves and PVP were more accurately calculated and restated for the following reporting quarter	100% (16 of 16)	92% (11 of 12)	96% (27 of 28)
Rough models had to be quickly assembled to create the PGAAP reserves and PVP in order to have values for the opening PGAAP balance sheet and for the first quarterly financial reporting. Over the next quarter, more complete and better models were developed to more accurately calculate reserves and PVP. These new values are used and the initial Goodwill is restated	100% (16 of 16)	75% (9 of 12)	89% (25 of 28)

8. In developing reserves and PVP, which of the following expenses (other than commission) applies to GAAP?

Situation	Stock-Publicly Traded	All Other	All Companies
PGAAP expenses are to be the same as under historical GAAP (HGAAP).	47% (8 of 17)	31% (4 of 13)	40% (12 of 30)
Only pure maintenance expenses are used (no allocation of corporate overhead and indirect support departments)	23% (4 of 17)	8% (1 of 13)	17% (5 of 30)
Pure maintenance with a share of allocated indirect support functions	6% (1 of 17)	15% (2 of 13)	10% (3 of 30)
Pure maintenance with a share of indirect support functions and corporate overhead	18% (3 of 17)	38% (5 of 13)	27% (8 of 30)
Other	6% (1 of 17)	8% (1 of 13)	6% (2 of 30)

9. Should excess maintenance and operating expense, which are to be present for some limited time after a purchase, be taken into consideration in setting reserves and PVP?

	Stock-Publicly Traded	All Other	All Companies
Yes	35% (6 of 17)	42% (5 of 12)	38% (11 of 29)
No	65% (11 of 17)	58% (7 of 12)	62% (18 of 29)

10. Should any portions of the historical unearned revenue liability be carried over to the PGAAP balance sheets?

	Stock-Publicly Traded	All Other	All Companies
None	100% (10 of 10)	33% (2 of 6)	75% (12 of 16)
100%	0% (0 of 10)	50% (3 of 6)	19% (3 of 16)
Some portion	0% (0 of 10)	17% (1 of 6)	6% (1 of 16)

11. For FAS60 products, should margins for adverse deviation be included in the reserves and PVP?

	Stock-Publicly Traded	All Other	All Companies
Yes	88% (15 of 17)	90% (9 of 10)	89% (24 of 27)
No	12% (2 of 17)	10% (1 of 10)	11% (3 of 27)

12. What time period is used to amortize good will (current practice)?

	Stock-Publicly Traded	All Other	All Companies
10 years or less	6.25% (1 of 16)	15% (2 of 13)	10% (3 of 29)
15 years	6.25% (1 of 16)	8% (1 of 13)	7% (2 of 29)
20 years	31.25% (5 of 16)	31% (4 of 13)	31% (9 of 29)
25 years	0% (0 of 16)	15% (2 of 13)	7% (2 of 29)
30 years	25% (4 of 16)	23% (3 of 13)	24% (7 of 29)
40 years	25% (4 of 16)	0% (0 of 13)	14% (4 of 29)
Other	6.25% (1 of 16)	8% (1 of 13)	7% (2 of 29)

13. How is "good will" tested for loss recognition (indicate all that apply)?

	Stock-Publicly Traded	All Other	All Companies
Based on value of new business (undiscounted future profits)	0% (0 of 15)	17% (2 of 12)	7% (2 of 27)
Based on value of new business (discounted future profits)	20% (3 of 15)	8% (1 of 12)	15% (4 of 27)
Based on value of new business plus excess profit margins on the purchase block	0% (0 of 15)	8% (1 of 12)	4% (1 of 27)
Other	7% (1 of 15)	0% (0 of 12)	4% (1 of 27)
Not tested	73% (11 of 15)	67% (8 of 12)	70% (19 of 27)

14. For loss recognition purposes, which statements apply (line of business used below is broadly defined to be operations split by types of products, such as individual versus group, individual life versus individual health versus individual annuities, etc.)?

Situation	Stock-Publicly Traded	All Other	All Companies
PVP, for a subsidiary is tested for loss recognition at the line of business level without regard to any excess margins from DAC or from any other subsidiaries acquired during the same purchase transaction	40% (7 of 17)	34% (3 of 9)	37% (10 of 26)
PVP, for a subsidiary, is tested for loss recognition for all lines of business combined without regard to any excess margins from DAC or from any other subsidiaries	24% (4 of 17)	22% (2 of 9)	23% (6 of 26)
PVP, for a subsidiary, is tested for loss recognition using excess margins from DAC on issues after purchase (at the line of business level)	12% (2 of 17)	11% (1 of 9)	12% (3 of 26)
PVP, for a subsidiary, is tested for loss recognition using excess margin from DAC (all lines combined)	0% (0 of 17)	0% (0 of 9)	0% (0 of 26)
PVP is tested for loss recognition in the aggregate for all subsidiaries combined within a given purchased group of companies (i.e., multiple companies purchased in a single transaction from a seller)	6% (1 of 17)	0% (0 of 9)	4% (1 of 26)
PVP is tested for recoverability in the aggregate where more than one set of purchased groups of companies is owned by a holding company	0% (0 of 17)	0% (0 of 9)	0% (0 of 26)
PVP is tested for loss recognition at the line of business level for all companies combined within a single purchase	12% (2 of 17)	11% (1 of 9)	12% (3 of 26)
Other	6% (1 of 17)	22% (2 of 9)	12% (3 of 26)

15. Have you ever restated the initial reserves and PVP after crossing over the first quarter of reporting after a purchase and within 12 months (no errors involved)?

	Stock-Publicly Traded	All Other	All Companies
No	65% (11 of 17)	50% (6 of 12)	59% (17 of 29)
Yes	35% (6 of 17)	50% (6 of 12)	41% (12 of 29)

V. FAS 115

FAS 115 requires that certain marketable securities be "marked to fair value" each accounting period. This results in unrealized holding gains and losses (UHGL) that impact shareholders equity and possibly other balance sheet entries. One such adjustment involves DAC where under a portion of a company's UHGLs are used to adjust the DAC asset account ("shadow" DAC). For the questions below, "K" is defined to be the amortization rate applied to gross GAAP margins to produce amortization of DAC before the shadow adjustment.

1. Which of the following apply regarding your company's calculation of a "shadow" DAC on FAS97 and FAS120 products?

	Stock-Publicly Traded	All Other	All Companies
Apply the "K" factor to the net UHGL's expressed as a straight percentage of the UHGL's for each accounting period	59% (10 of 17)	91% (20 of 22)	75% (30 of 40)
Recalculate "K" from issue (K') and apply to UHGL's with future interest yields reflecting the hypothetical sale of the assets and reflecting a lower future profit spread	29% (5 of 17)	0% (0 of 22)	12.5% (5 of 40)
Recalculate "K" from issue (K') and apply to UHGL's with future interest yields reflecting the hypothetical sale of the assets and maintaining pre-sale profit spreads without dropping below statutory minimums	12% (2 of 17)	9% (2 of 22)	10% (4 of 40)
Recalculate "K" from issue but use some other approach	0% (0 of 17)	0% (0 of 22)	2.5% (1 of 40)

2. For FAS60 products where the current market yield under FAS115 would create a yield rate at a level where there would be a need for loss recognition, should a shadow adjustment to DAC or reserves be created?

	Stock-Publicly Traded	All Other	All Companies
FAS115 shadow adjustments do not apply to FAS60 products	61% (11 of 18)	88% (21 of 24)	76% (32 of 42)
Adjustments do apply	33% (6 of 18)	4% (1 of 24)	17% (7 of 42)
Other	6% (1 of 18)	8% (2 of 24)	7% (3 of 42)

3. How do I allocate the UHGL to determine the "shadow" DAC adjustments?

	Stock-Publicly Traded	All Other	All Companies
Assets are segmented by product group and the UHGL is allocated directly to that group	56% (9 of 16)	47.5% (10 of 21)	51% (19 of 37)
Assets are not segmented and the UHGL is allocated based on a pro-rated approach	25% (4 of 16)	47.5% (10 of 21)	38% (14 of 37)
Other	19% (3 of 16)	5% (1 of 21)	11% (4 of 37)