

## NAIC 2018 Highlights – Year in Review

Johnson Lambert LLP is dedicated to keeping you abreast of changes adopted by the NAIC within the Statutory Accounting Principles (E) Working Group (SAPWG) that will impact your 2018 statutory basis financial statements; and providing you a summary of significant activities related to reinsurance.

### Statutory Accounting Updates

| Ref #   | SSAP No | Title                                       | Revision Description  | Effective |
|---------|---------|---|---|-----------|
| 2017-18 | 68      | Goodwill Limitations in SSAP Nos. 68 and 97 | Additional disclosures are required for unamortized goodwill reported as a component of an investment resulting from a business combination under the statutory purchase method, including: <ul style="list-style-type: none"> <li>• Acquisition date</li> <li>• Original amount of admitted goodwill</li> <li>• Admitted goodwill as of the reporting date and admitted goodwill as a percentage of the subsidiary, controlled and affiliated (SCA)'s book adjusted carrying value (gross of admitted goodwill)</li> </ul> | 12.31.18  |
| 2017-31 | 103R    | Wash Sale Disclosure                        | Wash sale disclosures should exclude cash equivalents, derivatives and short-term investments with credit assessments equivalent to NAIC 1 or 2. Wash sale disclosures should be included in the financial statements when a security is sold.  | 03.24.18  |
| 2017-21 | 41R, 97 | Double-Counting of Surplus Notes            | Surplus notes issued by SCA entities should be eliminated in the SCA's value reported in the parent insurance company's financial statements.<br><br>The revision also clarifies the existing concept restricting the double counting of surplus notes.   | 03.24.18  |

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| 2016-48 | 86               | Impact of Future Settled Premiums on Option Valuations                   | <p>Additional disclosures are required for individual derivative contracts with financing premiums, including:</p> <ul style="list-style-type: none"> <li>• Whether premium cost is paid throughout the contract, or at derivative maturity</li> <li>• Next premium cost payment date</li> <li>• Total premium cost</li> <li>• Premium cost paid in prior years</li> <li>• Current year premium cost paid</li> <li>• Future unpaid premium cost</li> <li>• Fair value of derivative, excluding impact of financing premiums</li> <li>• Unrealized gain/loss, excluding impact of financing premiums</li> </ul> | 12.31.18  |
| 2017-30 | 92, 102          | Updates to the Presentation and Disclosure of Pension and Postretirement | The disclosure requirements for level 3 investment roll-forwards for pension and other post-retirement plan assets is removed.   | 03.24.18  |
| 2017-36 | Appendix B and H | Updates to INT 02-22 and INT 09-08                                       | <p><i>INT 02-02</i><br/> <i>Accounting for the U.S. Terrorism Risk Insurance Program</i> is modified to clarify the INT will be in effect as long as the Program is in effect.</p> <p><i>INT 09-08</i><br/> <i>Accounting for Loans Received Under the Federal TALF Program</i> is nullified as there are no more loans outstanding under this program.</p>  | 03.24.18  |
| 2018-01 | 101              | Federal Income Tax Reform  | The revisions incorporate changes from the Tax Cuts and Jobs Act issued 12.22.17, which disallow entities taxed as life insurance entities   | 05.24.18  |

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|         |                |  | to carryback ordinary losses and removed references to the previous tax rate.  |           |
| 2018-10 | Appendix H     | Updates to INT 16-01 and INT 18-02                         | The health insurer provider (HIP) fee, also known as the ACA Section 9010 Assessment, was suspended for 2019. Therefore, impacted reporting entities are not required to accrue the fee liability as of 01.01.19.  | 05.24.18  |
| 2017-35 | 49, 56         | Policy Loans   | The revisions clarify all policy loans must follow the guidance in SSAP 49, which is expanded to include guidance and sample journal entries for separate account product policy loans. Separate account product policy loans must be funded by the general account for the policy loan to be admitted.  | 08.04.18  |
| 2018-08 | 21             | Private Placement Variable Annuities (PPVA's)              | The revisions provide clarity on how to account for PPVA's as specific guidance on these investments did not exist. The revisions address how to account for and comply with the additional disclosure requirements specific to PPVA's that comply with Internal Revenue Code (IRC) § 7702. Disclosure of the underlying investment vehicle is required. | 08.04.18  |
| 2018-14 | 47 & INT 05-05 | Update Medicare Part D Definitions in INT 05-05            | A description of the Coverage Gap Discount Program (the Program) as part of Medicare Part D and a description of the Program's cash flows was added to INT 05-05. Additionally, the revisions clarify which SSAP should be followed when accounting for the Program.   | 08.04.18  |
| 2018-15 | INT 18-03      | Additional Elements Under the Tax Cuts and Jobs Act (TCJA) | INT 18-03 was adopted to provide limited-time accounting and reporting guidance on the following items under the TCJA: <ul style="list-style-type: none"> <li>• Repatriation Transition Tax</li> <li>• Alternative Minimum Tax</li> <li>• Global Intangible Low-Taxed Income Tax</li> </ul>  | 08.04.18  |

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| 2018-08 | 56        | Private Placement Variable Annuities | <p>The separate account annual statement general interrogatory 1.01 is modified to disclose the amount of separate account assets</p> <ul style="list-style-type: none"> <li>• Registered with the SEC</li> <li>• Not registered with the SEC</li> </ul> <p>General interrogatory 1.01A is added to disclose the amount of separate account assets not registered with the SEC as follows:</p> <ul style="list-style-type: none"> <li>• Private placement variable annuities</li> <li>• Private placement life insurance</li> <li>• Other</li> </ul> | 12.31.18  |
| 2018-09 | 97        | SCA Loss Tracking                    | <p>When a reporting entity's share of losses in an SCA exceeds its investment, regardless of a guarantee or commitment of future support to the SCA, the reporting entity is required to disclose its:</p> <ul style="list-style-type: none"> <li>• Current and accumulated share of net income (loss)</li> <li>• Overall investment in SCA</li> <li>• Guarantee or commitment of future support, if any</li> <li>• Reported value of SCA</li> </ul>   | 12.31.18  |
| 2018-16 | 1 & A-001 | Summary Investment Schedule Updates  | <p>The format of the summary investment schedule is revised to more closely aligns with the underlying investment schedules in the annual statement to provide for more automated cross checks and fewer manual allocations.</p>   | 01.01.19  |
| 2018-23 | 68        | Mergers                              | <p>The revisions clarify that statutory mergers include cancelling the equity of a SCA entity and reporting the SCA's assets and liabilities on the parent's financial statements. Such mergers are subject to the statutory accounting restatement guidance.</p>  | 11.15.18  |

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| 2018-24EP | 86, 97, Appendix A-010 | Editorial and Maintenance Update       | <p>SSAP No 86 – Removed the 12.31.17 effective date as additional disclosure requirements were adopted during 2018.</p> <p>SSAP No 97 - Removed old paragraph numbers that were no longer applicable and updated the description of the changes to reference the applicable SSAPs.</p> <p>Appendix A-010 - Updated paragraph numbering and revised an incorrect date for consistency with Model 10.</p>   | 11.15.18  |
| 2018-28   | 51, 52, 61R            | Life and Annuity Liquidity Disclosures | The revisions add life liquidity disclosures and expand variable annuity liquidity disclosures.   | 12.31.19  |
| 2018-29   | Appendix A-820         | Consistency Revisions to A-820         | Removed the phrase “good and sufficient” for consistency with the NAIC Standard Valuation Law (Model 820).  | 11.15.18  |
| 2018-30   | 86                     | Hedge Effectiveness Documentation      | <p>The revisions incorporate nonsubstantive provisions of ASU 2017-12 – <i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i>.</p> <ul style="list-style-type: none"> <li>• If certain conditions are met, companies may perform subsequent qualitative assessments of hedge effectiveness.</li> <li>• Companies are allowed additional time to complete the initial quantitative assessments of hedge effectiveness.</li> <li>• The “critical terms match” method may be used for groups of forecasted transactions when the requirements for applying</li> </ul> | 01.01.19  |

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|         |                 |   | <p>this method are satisfied AND the transactions occur and derivatives mature during the same 31-day period or fiscal month</p> <p>Early adoption is permitted. Statutory filers who also file US GAAP financial statements may early adopt if they early adopted ASU 2017-12.</p>  |           |
| 2018-31 | INT 18-04       | Extension of Ninety-Day Rule for Impact of Hurricane Florence and Hurricane Michael | Insurers impacted by Hurricane's Florence and Michael are given a temporary 60-day extension to the 90-day nonadmission rule in SSAP No. 6 – <i>Uncollected Premium Balances, Bills Receivable for Premiums and Amounts Due from Agents and Brokers</i> for a total of 150 days. The Interpretation automatically terminates 03.07.19. | 11.15.18  |
| 2016-03 | 108, IP No. 159 | Special Accounting Treatment for Limited Derivatives                                | <p>SSAP No. 108 – <i>Derivatives Hedging Variable Annuity Guarantees</i> and Issue Paper No. 159 – <i>Special Accounting for Limited Derivatives</i>, were finalized. These provide guidance on derivatives that hedge interest rate risk of variable annuity guarantees.</p> <p>Early adoption is permitted as of 01.01.19.</p>       | 01.01.20  |
| 2017-28 | 62R             | Reinsurance Credit  | The substantive revisions clarify the determination of reinsurance credit and add language from EITF 93-6, <i>Accounting for Multi-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises</i> and EITF D-035, <i>FASB Staff Views on Issue No. 93-6</i> . Additional information will follow in an NAIC Issue Paper.  | 01.01.19  |

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| 2017-32 | 30R, IP No. 158 | Investment Classification Project           | The definition of Common Stock now includes U.S. SEC registered unit-investment trusts and closed-end funds. These investments will be reported in Schedule D, Part 2, Section 2.  | 01.01.19  |
| 2018-17 | 21R             | Structured Settlements                      | Periodic-certain structured settlements obtained within state and federal laws are admitted assets. Life-contingent and periodic-certain structured settlements not obtained within state and federal law are nonadmitted assets. Structured settlements are reported separately on Schedule BA under "any other class of asset." Structured settlements with similar terms and payouts may be aggregated. | 12.31.18  |
| 2018-19 | 43R             | Elimination of Modified Filing Exempt (MFE) | The modified filing exempt (MFE) process for determining NAIC designations is eliminated.<br><br>Early adoption is permitted as of 12.31.18. Entities that early adopt are prohibited from using the MFE process for SSAP 43R securities in 2018.  | 03.31.19  |
| 2018-20 | 15, 25          | Related Party Debt Forgiveness              | Related party debt forgiveness will follow SSAP 72. Forgiveness of debt to a parent or other stockholder is considered contributed surplus. Forgiveness of debt from a parent or other stockholders is considered a dividend.  | 11.15.18  |
| 2018-21 | 72              | Distributions                               | The revision clarifies a distribution that is a return of capital is recorded to gross paid in and contributed surplus.  | 11.15.18  |

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|---------|---------|-------------------------|--|-----------|
| 2018-27 | 48      | Entities' Loss Tracking | Entities whose losses exceed its investment in a joint venture, partnership or limited liability company must follow the disclosure requirement in SSAP No. 97, paragraph 35a. | 12.31.18  |

## Rejected ASUs

The following [FASB ASUs](#) were rejected by the SAPWG during 2018:

- ASU 2014-09, *Revenue from Contracts with Customers*
- ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*
- ASU 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
- ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*
- ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*
- ASU 2017-06, *Plan Accounting: Defined Benefit Pension Plans, Defined Contribution Pension Plans and Health and Welfare Benefit Plans: Employee Benefit Plan Master Trust Reporting*
- ASU 2017-13, *Revenue Recognition, Revenue from Contracts with Customers, Leases and Leases: Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments*
- ASU 2017-15, *Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995*
- ASU 2018-01, *Leases: Land Easement Practical Expedient for Transition to Topic 842*
- ASU 2018-02, *Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*
- ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*
- ASU 2018-04, *Investments – Debt Securities and Regulated Operations: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*



- ASU 2018-05, *Income Taxes: Amendmenets to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*
- ASU 2018-06, *Codification Improvements to Topic 942, Financial Services – Depository and Lending*

## Reinsurance

The **Reinsurance (E) Task Force** had a busy 2018. After three NAIC meetings, a public hearing, multiple exposure drafts and numerous comment letters, the Task Force and its parent committee, the **Financial Condition (E) Committee**, adopted revisions to the Credit for Reinsurance Model Law ([#785](#)) and the Credit for Reinsurance Model Regulation ([#786](#)) to conform to the [Bilateral Agreement between the United States of America and the European Union \(EU\) on Prudential Measures Regarding Insurance and Reinsurance](#) (U.S./EU Covered Agreement). It was anticipated that the amendments would be officially adopted during the Executive (EX) Committee and Plenary meeting on December 19, 2018. However, due to input from the United States Department of Treasury (Treasury) and the Office of the United States Trade Representative (USTR), a vote on the amendments was delayed to allow the NAIC more time to properly consider the input before proceeding.

Also subsequent to the Fall National Meeting, the United States and the United Kingdom (UK) signed the [Bilateral Agreement between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance](#) (US-UK Covered Agreement). The NAIC issued a statement regarding the US-UK Covered Agreement noting that “it appears Treasury and USTR have mirrored the terms of the U.S./EU covered agreement and largely replicated it for the UK.”

Both Covered Agreements contain provisions on group capital, group supervision and reinsurance, including eliminating the reinsurance collateral requirements for EU and UK reinsurers that meet certain requirements. For EU and UK reinsurers to be eligible for collateral elimination, the states need to amend their credit for reinsurance laws and will have five years to adopt the necessary reinsurance reforms. The amendments to Models #785 and #786 will provide reinsurers domiciled in NAIC qualified jurisdictions, other than within the EU and UK, with similar reinsurance collateral reductions, but only if such jurisdictions agree to the states’ approach to group supervision, group capital, information sharing, and enforcement. If you have any questions about this annual update you can [contact us here](#).

Authors:

[Lauren Williams](#), CPA, Partner

Liz Nielson, CPA, Senior Manager

Trish Hagar, CPA, CFE, Senior Associate