FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2018-12
August 2018

Financial Services—Insurance (Topic 944)

Targeted Improvements to the Accounting for Long-Duration Contracts

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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FASB

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board undertook this project with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. Stakeholders including investors and other users provided feedback that the existing accounting model does not provide sufficient decision-useful information in a timely or transparent manner. To achieve the Board's objective, the amendments in this Update:

1. Improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows
2. Simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts
3. Simplify the amortization of deferred acquisition costs
4. Improve the effectiveness of the required disclosures.

Although the amendments in this Update target specific aspects of the accounting for long-duration contracts, the Board anticipates that the amendments will achieve the objective of providing meaningful improvements to the financial reporting of an insurance entity.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all insurance entities that issue long-duration contracts as defined in Topic 944, Financial Services—Insurance. The amendments do not apply to (1) holders (or policyholders) of long-duration contracts and (2) noninsurance entities.

What Are the Main Provisions and How Do They Differ from Current Generally Accepted Accounting Principles (GAAP)?

The amendments in this Update affect aspects of the guidance in Topic 944 as described in the following table.

Area for Improvement	Summary of Amendments
Assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts	
Original assumptions used to measure the liability for future policy benefits are locked at contract inception and held constant over the term of the contract. The liability includes a provision for risk of adverse deviation, and assumptions are unlocked if a premium deficiency arises.	The amendments in this Update require an insurance entity to (1) review and, if there is a change, update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The provision for risk of adverse deviation and premium deficiency (or loss recognition) testing are eliminated.
An unobservable discount rate (a rate based on an insurance entity's expected yield on its invested assets) is used to discount future cash flows.	The change in the liability estimate as a result of updating cash flow assumptions is required to be recognized in net income. The change in the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income. The amendments require that an insurance entity discount expected future cash flows at an upper-medium grade (low-credit-risk) fixed-income instrument yield that maximizes the use of observable market inputs.
Measurement of market risk benefits	
Certain market-based options or guarantees associated with deposit (or account balance) contracts share common risk characteristics that expose an insurance entity to capital market risk, but two different measurement models exist (a fair value model and an insurance accrual model).	The amendments require that an insurance entity measure all market risk benefits associated with deposit (or account balance) contracts at fair value. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.

Area for Improvement	Summary of Amendments
Amortization of deferred acquisition costs	
Multiple amortization methods exist, some of which are complex and require numerous inputs and assumptions.	The amendments simplify the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins and require that those balances be amortized on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to an impairment test.
Disclosures	
There are limited requirements to disclose information about long-duration contracts.	The amendments require that an insurance entity provide disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. The amendments also require that an insurance entity disclose information about significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgments, and assumptions, and the effect of those changes on measurement.

What Are the Transition Requirements?

Liability for Future Policy Benefits and Deferred Acquisition Costs

For the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity should apply the amendments in this Update to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in accumulated other comprehensive income.

An insurance entity may elect to apply the amendments in this Update retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented) using actual historical experience information as of contract inception. For consistency, the same transition method should be applied to both the liability for future policy benefits and deferred acquisition costs. The election to apply the amendments retrospectively should be made at the same contract issue-year level for both the liability for future policy benefits and deferred acquisition costs and should be applied entity wide (that is, applied to all products and contracts) for that contract issue year and all subsequent contract issue years. Estimates of historical experience may not be substituted for actual historical experience.

Market Risk Benefits

An insurance entity should apply the amendments in this Update retrospectively as of the beginning of the earliest period presented. An insurance entity may use hindsight in instances in which assumptions in a prior period are unobservable or otherwise unavailable and cannot be independently substantiated. The cumulative effect of changes in the instrument-specific credit risk between contract inception date and the beginning of the earliest period presented should be recognized in the opening balance of accumulated other comprehensive income. The difference between fair value and carrying value at the transition date, excluding the effect of changes in the instrument-specific credit risk, requires an adjustment to the opening balance of retained earnings.

When Will the Amendments Be Effective?

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the amendments is permitted.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–41. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Supersede the following Master Glossary terms, with a link to transition paragraph 944-40-65-2, as follows:

~~Block of New Insurance Contracts~~

~~A group of insurance contracts that may be limited to contracts issued under the same plan in a particular year.~~

~~Lock-In Concept~~

~~The concept that original assumptions shall continue to be used in subsequent accounting periods to determine changes in the liability for future policy benefits unless a premium deficiency exists.~~

3. Amend the following Master Glossary terms, with a link to transition paragraph 944-40-65-2, as follows:

Guaranteed Minimum Income Benefit

A guarantee that, regardless of <u>account balance</u>~~separate account investment~~ performance, the contract holder will be able to annuitize after a specified date and receive a defined minimum periodic benefit. These benefits are available only if the contract holder elects to annuitize.

Net Premiums

For traditional<u> and limited-payment</u> long-duration insurance contracts, the net premium is that portion of the **gross premium** required to provide for all benefits and expenses, excluding acquisition costs or any costs that are required to be charged to expense as incurred. For long-duration participating life insurance contracts that meet the criteria in paragraph 944-20-15-3, the net premium is a constant ratio of guaranteed maximum gross premiums. The ratio is calculated at issue, so that the present value of all guaranteed death and endowment benefits is equal to the present value of all net premiums.

Risk of Adverse Deviation

A concept (also referred to as risk load) used by ~~life~~ insurance entities ~~in estimating the liability for future policy benefits relating to long-duration contracts. The risk of adverse deviation~~that allows for possible unfavorable deviations from assumptions~~, such as estimates of expected investment yields, mortality, morbidity, terminations, and expenses. The concept is referred to as risk load when used by property and liability insurance entities~~.

4. Add the new Master Glossary term *Market Risk Benefit*, with a link to transition paragraph 944-40-65-2, as follows:

Market Risk Benefit

A contract or contract feature in a long-duration contract issued by an insurance entity that both protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk.

Amendments to Subtopic 944-20

5. Supersede paragraph 944-20-05-23 and amend paragraphs 944-20-10-3, 944-20-15-11, 944-20-15-13, and 944-20-15-24, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Insurance Activities

Overview and Background

Long-Duration Contracts

> Nontraditional Fixed and Variable Annuity and Life Insurance Contracts

944-20-05-22 Annuity and life products with nontraditional terms may combine fixed and variable features and are sold as general account or separate account products. The features of such contracts are many and complex, and may be offered in different combinations, such that there are numerous variations of the same basic products being sold in the marketplace.

944-20-05-23 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Examples 2, 3, and 4 (see paragraphs 944-20-55-16 through 55-26) illustrate such products.~~

Objectives

944-20-10-3 The insurance model does not override, nor is it inconsistent with, the basic recognition and measurement principles of Subtopic 450-20. Rather, the insurance model is a specialized application of those principles that estimates and allocates revenues and costs that have a future economic benefit over the period in which services are provided or received. For example, that Subtopic prohibits recognition of a loss unless it is **probable** that a loss has been incurred, and requires recognition of the full amount of a loss that has been incurred in the period of the loss. Likewise, paragraphs 944-40-25-32, ~~944-40-35-7,~~ 944-60-25-2, 944-60-25-9, 944-60-30-1 through 30-2, and 944-60-35-3 through 35-5 require recognition of losses in the period the loss occurs.

Scope and Scope Exceptions

Long-Duration Contracts

> Instruments

944-20-15-11 The guidance in the Long-Duration Contracts Subsections of this Subtopic applies, in part, to ~~all of~~ the following classes of long-duration contracts issued:

a. Universal life-type contracts, that is, long-duration insurance contracts with terms that are not fixed and guaranteed
b. **Limited-payment contracts**, including limited-payment participating and limited-payment nonguaranteed-premium contracts that are not, in substance, universal life-type contracts
c. Except as noted in paragraph 944-20-15-3, participating life insurance contracts
d. **Whole-life ~~contract~~contracts**, that is, insurance contracts that may be kept in force for a person's entire life by paying one or more premiums
e. **Term life insurance** contracts, that is, insurance contracts that provide~~provides~~ a benefit if the insured dies within the period specified in the contract.

Stock life insurance entities with participating life insurance contracts described in (c) are permitted to account for those contracts in accordance with the Long-Duration Contracts Subsections of this Subtopic. The same accounting policy shall be applied consistently to all those participating life insurance contracts.

944-20-15-12 If insurance contracts have characteristics significant to the contracts cited in (a) or (b) of the preceding paragraph those contracts are within the scope of the Long-Duration Contracts Subsections of this Subtopic. For example, universal disability contracts that have many of the same characteristics as universal life-type contracts, with the exception of providing disability benefits instead of life insurance benefits, shall be accounted for in a manner consistent with universal life-type contracts.

944-20-15-13 The Long-Duration Subsections of this Subtopic also apply to certain ~~contract~~contracts or features not covered elsewhere in the Codification, including asset, liability, revenue, and expense recognition. Examples of such ~~contract~~contracts or features include the following:

a. Contracts offered through an insurance entity's separate accounts
b. Variable annuities with a **minimum guaranteed death benefit** or a **guaranteed minimum accumulation benefit**
c. Variable annuities with a **guaranteed minimum income benefit**
d. Contracts providing multiple account balances
e. Contracts with **sales inducements**.

> Other Considerations

> > Distinguishing Investment Contracts from Universal Life-Type Insurance Contracts

944-20-15-24 The determination of the significance of mortality or morbidity risk shall be based on a comparison of the following amounts:

a. Excess payments. The present value of expected excess payments to be made under insurance benefit features—that is, insurance benefit amounts and related incremental **claim adjustment expenses** in excess of the account balances.
b. Revenue. The present value of all amounts expected to be assessed against the contract holder and the expected investment margin.

~~For contracts that include investment margin in their estimated gross profits, the investment margin shall be included with any other assessments for purposes of determining significance.~~

6. Amend paragraphs 944-20-55-13 through 55-14 and supersede paragraphs 944-20-55-15 through 55-26 and their related headings, with a link to transition paragraph 944-40-65-2, as follows:

Implementation Guidance and Illustrations

Long-Duration Contracts

> Implementation Guidance

> > Long-Term Care Benefit

944-20-55-13 A **long-term care benefit** should be evaluated and accounted for in accordance with paragraphs 944-20-15-20 through 15-25, 944-40-25-35 through 25-39, 944-40-30-20 through <u>30-24</u>~~30-25~~, 944-40-35-9 through ~~35-11~~ <u>35-10</u>, 944-40-35-17 through 35-18, and 944-605-30-1 through 30-2.

> > Earnings Protection Benefit

944-20-55-14 An **earnings protection benefit** is a death benefit and should be evaluated and accounted for in accordance with <u>paragraph 944-40-25-25B</u>~~paragraphs 944-20-15-20 through 15-25, 944-40-25-35 through 25-39, 944-40-30-20 through 30-25, 944-40-35-9 through 35-11, 944-40-35-17 through 35-18, and 944-605-30-1 through 30-2~~.

~~**> Illustrations**~~

~~**> > Example 1: Sample Disclosures Relating to Variable Annuity Contracts Issued Through a Separate Account**~~

944-20-55-15 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~This Example illustrates the financial statement disclosure requirements of paragraph 944-80-50-1. Entities are not required to display the disclosure information contained herein in the specific manner illustrated. Alternative ways of disclosing the information are permissible provided that the disclosure requirements of that paragraph are met, such as showing account balances of contracts with guarantees by type of benefit. Entity's illustrative disclosures follow.~~

> ~~The Entity issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). The Entity also issues variable annuity and life contracts through separate accounts where the Entity contractually guarantees to the contract holder (variable contracts with guarantees) either (a) return of no less than total deposits made to the contract less any partial withdrawals, (b) total deposits made to the contract less any partial withdrawals plus a minimum return, or (c) the highest contract value on a specified anniversary date minus any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death, annuitization, or at specified dates during the accumulation period. During 20X1 and 20X2 there were no gains or losses on transfers of assets from the general account to the separate account.~~
>
> ~~The assets supporting the variable portion of both traditional variable annuities and variable contracts with guarantees are carried at fair value and reported as summary total separate account assets with an equivalent summary total reported for liabilities. Amounts assessed against the contract holders for **mortality**, administrative, and other services are included in revenue and changes in liabilities for minimum guarantees are included in policyholder~~

~~benefits in the Statement of Operations. Separate account net investment income, net investment gains and losses, and the related liability changes are offset within the same line item in the Statement of Operations.~~

~~At December 31, 20X1, and 20X2, the Entity had the following variable contracts with guarantees. (Note that the Entity's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.) For guarantees of amounts in the event of death, the~~ ~~**net amount at risk**~~ ~~is defined as the current guaranteed minimum death benefit in excess o-f the current account balance at the balance sheet date. For guarantees of amounts at annuitization, the net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account balance. For guarantees of accumulation balances, the net amount at risk is defined as the guaranteed minimum accumulation balance minus the current account balance.~~

	~~December 31~~	
	~~*20X1*~~	~~*20X2*~~
~~**Return of Net Deposits**~~		
~~*In the event of death*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Average attained age of contract holders~~	~~xx~~	~~xx~~
~~*At annuitization*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Weighted average period remaining until expected annuitization~~	~~xx~~	~~xx~~
~~*Accumulation at specified date*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~**Return of Net Deposits Plus a Minimum Return**~~		
~~*In the event of death*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Average attained age of contract holders~~	~~xx~~	~~xx~~
~~Range of guaranteed minimum return rates~~	~~x-x%~~	~~x-x%~~
~~*At annuitization*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Weighted average period remaining until expected annuitization~~	~~xx~~	~~xx~~
~~Range of guaranteed minimum return rates~~	~~x-x%~~	~~x-x%~~
~~*Accumulation at specified date*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Range of guaranteed minimum return rates~~	~~x-x%~~	~~x-x%~~
~~**Highest Specified Anniversary Account Value Minus Withdrawals Post Anniversary**~~		
~~*In the event of death*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Average attained age of contract holders~~	~~xx~~	~~xx~~
~~*At annuitization*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~
~~Weighted average period remaining until expected annuitization~~	~~xx~~	~~xx~~
~~*Accumulation at specified date*~~		
~~Account value~~	~~$xxx~~	~~$xxx~~
~~Net amount at risk~~	~~$xxx~~	~~$xxx~~

~~Account balances of contracts with guarantees were invested in variable separate accounts as follows.~~

~~*Asset Type*~~	~~*December 31, 20X1*~~	~~*December 31, 20X2*~~
~~U.S. Treasury securities and obligations of U.S. government corporations and agencies~~	~~$~~	~~$~~
~~Obligations of states of the United States and political subdivisions of the states~~		
~~Corporate debt securities:~~		
~~—Investment grade~~		
~~—Noninvestment grade~~		
~~Foreign debt securities~~		
~~Mortgage-backed securities~~		
~~Equity securities (including mutual funds)~~ ~~[(a)]~~		
~~Real estate~~		
~~Mortgage loans~~		
~~Derivative financial instruments~~		
~~Cash and cash equivalents~~		
~~Total~~	~~$ X,XXX,XXX~~	~~$ X,XXX,XXX~~

~~(a) The insurance entity may want to consider disclosing mutual funds by investment objective or other meaningful groupings that are useful in understanding the nature of the guarantee risk.~~

[Content amended and moved to paragraph 944-80-55-17]

~~The following summarizes the liabilities for guarantees on variable contracts reflected in the general account~~.

	~~*Minimum Guaranteed Death Benefit*~~	~~*Guaranteed Minimum Accumulation Benefit*~~	~~*Guaranteed Minimum Income Benefit*~~	~~*Totals*~~
~~Balance at January 1~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~
~~Incurred guarantee benefits~~ ~~[(a)]~~	~~X,XXX,XXX~~	~~X,XXX,XXX~~	~~X,XXX,XXX~~	~~$X,XXX,XXX~~
~~Paid guarantee benefits~~	~~X,XXX,XXX~~	~~X,XXX,XXX~~	~~X,XXX,XXX~~	~~$X,XXX,XXX~~
~~Balance at December 31, 20X2~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~	~~$X,XXX,XXX~~

~~(a) For guaranteed minimum accumulation benefits, incurred guarantee benefits incorporates all changes in fair value other than amounts resulting from paid guarantee benefits.~~

~~The **minimum guaranteed death benefit** liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The Entity regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. [Include discussion of change in estimate if material.]~~

~~The following assumptions and methodology were used to determine the minimum guaranteed death benefit liability at December 31, 20X2:~~

- ~~a. Data used was 1,000 stochastically generated investment performance scenarios.~~
- ~~b. Mean investment performance assumption was XX.~~
- ~~c. Volatility assumption was XX.~~
- ~~d. Mortality was assumed to be 90 percent of the Annuity 2000 table.~~
- ~~e. Lapse rates vary by contract type and duration and range from 1 percent to 20 percent, with an average of 3 percent.~~
- ~~f. Discount rate was XX%.~~

~~Guaranteed minimum accumulation benefits are considered to be derivative instruments under Subtopic 815-10 and are recognized at fair value through earnings.~~

~~The guaranteed minimum income benefit liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The Entity regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. [Include discussion of change in estimate if material.] The assumptions used for calculating the guaranteed minimum income benefit liability at December 31, 20X2, are consistent with those used for calculating the minimum guaranteed death benefit liability. In addition, the calculation of the guaranteed minimum income benefit liability assumes X percent of the potential annuitizations that would be beneficial to the contract holder will be elected.~~

~~> > Example 2: Guaranteed Minimum Accumulation Benefits~~

944-20-55-16 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~This Example illustrates the terms of **guaranteed minimum accumulation benefits**.~~

944-20-55-17 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~A contract holder deposits $100,000 in a deferred variable annuity that provides for a guaranteed minimum accumulation benefit that guarantees that at a specified anniversary date (for example, 5 years). The contract holder's account balance will be the greater of the following:~~

- ~~a. The account value, as determined by the separate account assets~~
- ~~b. Deposits less partial withdrawals accumulated at 3 percent interest compounded annually.~~ **[Content amended and moved to paragraph 944-40-55-29A]**

944-20-55-18 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~At the specified anniversary date the contract holder's account balance has~~

~~declined to $80,000 due to stock market declines. The guaranteed minimum value of the $100,000 deposit compounded annually at 3 percent interest is $115,930. The contract holder's account balance will be increased to the greater amount, resulting in an account balance of $115,930.~~ **[Content amended and moved to paragraph 944-40-55-29B]**

944-20-55-19 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Paragraph 944-815-25-5 specifies that a guaranteed minimum accumulation benefit is an embedded derivative subject to the requirements of Subtopic 815-15. As discussed in paragraph 815-15-25-54, the remaining part of the hybrid contract should be accounted for separately.~~

~~> > Example 3: Guaranteed Minimum Income Benefit~~

944-20-55-20 Paragraph superseded by Accounting Standards Update No. 2018-12.~~This Example illustrates the terms of **guaranteed minimum income benefit**.~~

944-20-55-21 Paragraph superseded by Accounting Standards Update No. 2018-12.~~A contract holder deposits $100,000 in a deferred variable annuity that provides a guaranteed minimum income benefit. The guaranteed minimum income benefit contract specifies that if the contract holder elects to annuitize, the amount available to annuitize will be the higher of the then account balance or the sum of deposits less withdrawals. The contract holder directs the deposit to equity-based funds within the separate account. At the date that the contract holder chooses to annuitize, the account balance has declined to $80,000 due to stock market declines. The contract holder elects a 20-year period-certain fixed payout annuity, payable monthly in arrears. Using the $100,000 guaranteed minimum account value at the date of annuitization and a guaranteed 3 percent crediting rate, the fixed monthly periodic annuity payment is $554.~~ **[Content amended and moved to paragraph 944-40-55-29C]**

944-20-55-22 Paragraph superseded by Accounting Standards Update No. 2018-12.~~During the **accumulation phase**, if the guaranteed minimum income benefit feature is not accounted for under the provisions of Subtopic 815-15, an additional liability should be established if the present value of expected annuitization payments at the annuitization date exceeds the expected account balance at the expected annuitization date. That additional liability should be determined in accordance with paragraphs 944-40-25-26 through 25-27, 944-40-30-26 through 30-29, 944-40-35-12 through 35-16, and 944-40-45-2. If there is an additional liability for the annuitization benefit and a contract holder elects to annuitize, the present value of annuitization payments, including related claims adjustment expenses, discounted at expected investment yields would represent the single premium used to purchase the annuitization benefit.~~

944-20-55-23 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Paragraph 815-15-55-58 specifies that a guaranteed minimum income benefit does not meet the definition of a derivative instrument pursuant to Section 815-10-15 (see paragraph815-15-25-1[c]) if it cannot be net settled. If the guaranteed~~

~~minimum income benefit can be net settled, the guarantee is a derivative instrument pursuant to Section 815-10-15 (see paragraph 815-15-25-1[c]) in the accumulation period and should be accounted for under Subtopics 815-10 and 815-15.~~

~~> > Example 4: Deferred Variable Annuity~~

944-20-55-24 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~This Example illustrates a deferred variable annuity that provides the contract holder with a number of investment alternatives. The contract holder deposits $100,000 in a deferred variable annuity that has no front-end load. The contract holder directs the allocation of the deposit to the following: aggressive growth equity fund, $25,000; high-yield corporate bond fund, $25,000; 5-year guaranteed interest separate account, $25,000; and general account, $25,000.~~ **[Content amended and moved to paragraph 944-80-55-19]**

944-20-55-25 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~Assets representing the contract holder's funds in the aggressive growth equity fund and high-yield corporate bond fund separate accounts satisfy all the criteria of paragraphs 944-80-25-2 through 25-3, 944-80-30-1, 944-80-35-2, and 944-80-45-2 through 45-3. The allocation to the guaranteed interest separate account does not satisfy the criterion in paragraph 944-80-25-2 for separate account treatment. Therefore, assets representing the contract holder's funds in the guaranteed interest separate account will be presented in the insurance entity's financial statements integrated with general account assets and liabilities. This reporting is appropriate even in those instances where the separate account arrangements with those contracts have been approved by regulatory authorities as separate account contracts.~~ **[Content moved to paragraph 944-80-55-20]**

944-20-55-26 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~The guaranteed interest separate account allocations are often referred to as spread products, where the insurer bears the investment risk and its profits are derived primarily from the excess of investment performance over net amounts credited to the contract holder. Amounts related to this contract that are directed to the general account option will be shown within general account balances.~~ **[Content moved to paragraph 944-80-55-21]**

Amendments to Subtopic 944-30

7. Amend paragraphs 944-30-15-6, 944-30-25-1B, 944-30-25-6 and its related heading, 944-30-25-8 through 25-9, and 944-30-30-2 and supersede the heading preceding paragraph 944-30-25-3 and paragraph 944-30-25-10 and its related heading, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Acquisition Costs

Scope and Scope Exceptions

Long-Duration Contracts

> Instruments

944-30-15-6 The guidance in the Long-Duration Contracts Subsections of this Subtopic applies only to long-duration ~~insurance~~ contracts. For guidance on identifying a long-duration ~~insurance~~ contract, see the Long-Duration Contracts Subsection of Section 944-20-15.

Recognition

General

944-30-25-1B To associate **acquisition costs** with related premium revenue, for acquisition costs that are charged to expense in proportion to premium revenue recognized under Subtopic 944-605, capitalized acquisition costs shall be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the profitability of its insurance contracts.

Long-Duration Contracts

~~> Universal Life-Type Contracts~~

944-30-25-3 This guidance does not define the costs to be included in **acquisition costs** but does describe those that are not eligible to be capitalized.

~~> >~~> Sales Inducements

944-30-25-6 ~~The following paragraph~~Paragraph 944-30-25-7 addresses ~~sales inducement amounts~~**sales inducements** that may be deferrable if the insurance entity can demonstrate that the sales inducement amounts have both of the following characteristics:

a. The amounts are incremental to amounts the entity credits on similar contracts without **{remove glossary link}sales inducements{remove glossary link}**.
b. The amounts are higher than the contract's expected ongoing crediting rates for periods after the inducement, as applicable; that is, the crediting rate excluding the inducement should be consistent with assumptions used in ~~estimated gross profits,~~ contract ~~illustrations,~~illustrations and interest-crediting strategies.

Due to the nature of **day-one bonuses** and **persistency** bonuses, the criteria in items (a) and (b) generally are met for such sales inducements.

> Limited-Payment Contracts

944-30-25-8 Costs related to the acquisition of new and renewal business that are not capitalized (because they do not meet the criteria for capitalization in paragraphs 944-30-25-1A through 25-1AA) and costs that are required to be charged to expense as incurred, such as those relating to investments, general administration, policy **maintenance costs**, product development, market research, and general overhead (see paragraphs 944-40-30-15 and 944-720-25-2) are period costs that shall be recognized when incurred. Such costs shall not be included in the calculation of **net premium** used in determining the profit to be deferred on **limited-payment contracts** because the inclusion of such costs in the calculation of net premium would result in their deferral.

944-30-25-9 Costs that would be included in the determination of net premium under this Subtopic ~~for such contracts and for purposes of determining the deferred profit for limited-payment contracts~~ are policy-related costs that are not primarily related to the acquisition of business (such as ~~policy administration, maintenance, and~~termination or settlement costs; see paragraph 944-40-30-15)~~ and acquisition costs that are capitalized under this Subtopic for such contracts~~.

~~**> Certain Participating Life Insurance Contracts**~~

944-30-25-10 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For long-duration participating life insurance contracts that meet the criteria in paragraph 944-20-15-3, acquisition costs having any of the following characteristics (such as premium taxes) are ineligible for capitalization and, thus, shall be charged to expense in the period incurred:~~

~~a. Acquisition costs that vary in a constant relationship to premiums or insurance in force~~
~~b. Acquisition costs that are recurring in nature~~
~~c. Acquisition costs that tend to be incurred in a level amount from period to period.~~

Initial Measurement

Long-Duration Contracts

944-30-30-2 Incurred~~Actual~~ **acquisition costs** for long-duration contracts shall be used in determining acquisition costs to be capitalized~~ as long as gross premiums are sufficient to cover actual costs. For guidance on accounting for a premium deficiency on a long-duration contract, see Subtopic 944-60~~. Acquisition costs, including future contract renewal costs, shall not be capitalized or amortized before the incurrence of those costs.

8. Amend paragraphs 944-30-35-3 through 35-3A and their related heading, 944-30-35-18 through 35-20, 944-30-35-36, 944-30-35-46 through 35-52 and the related heading, 944-30-35-61, and 944-30-35-63 through 35-64, add paragraphs 944-30-35-3B through 35-3C, and supersede paragraphs 944-30-35-4 through 35-17 and their related headings, 944-30-35-21 through 35-22, 944-30-35-41 through 35-45 and their related heading, and 944-30-35-62, with a link to transition paragraph 944-40-65-2, as follows:

Subsequent Measurement

Long-Duration Contracts

> ~~Traditional Long-Duration~~Insurance Contracts

944-30-35-3 Capitalized **acquisition costs** shall be charged to expense using ~~methods that include the same~~ assumptions consistent with those used in estimating the **liability for future policy benefits** (or any other related balance) for the corresponding contracts (see Subtopic 944-40), as applicable (for example, **terminations**). For contracts with accumulation and payout phases, the **payout phase** shall be viewed as a separate contract under this Topic and shall not be combined with the **accumulation phase** for amortization of capitalized acquisition costs.

944-30-35-3A Acquisition costs capitalized under paragraphs 944-30-25-1A through 25-1AA~~25-1B~~ shall be charged to expense ~~in proportion to premium revenue recognized under Subtopic 944-605.~~on a constant level basis—either on an individual contract basis or on a grouped contract basis—over the expected term of the related contract(s) as follows:

a. Individual contracts. Capitalized acquisition costs shall be charged to expense on a straight-line basis.
b. Grouped contracts. Capitalized acquisition costs shall be charged to expense on a constant-level basis that approximates straight-line amortization on an individual contract basis. Contracts shall be grouped consistent with the grouping used in estimating the liability for future policy benefits (or any other related balance) for the corresponding contracts.

The resulting amortization amount shall not be a function of revenue or profit emergence. The amortization method shall be applied consistently over the expected term of the related contract(s).

944-30-35-3B The balance of capitalized acquisition costs shall be reduced for actual experience in excess of expected experience (that is, as a result of unexpected contract terminations). The effect of changes in future estimates (for example, revisions of mortality or lapse assumptions as required in paragraph 944-

40-35-5(a)) shall be recognized over the remaining expected contract term as a revision of the future amortization amounts.

944-30-35-3C No interest shall accrue on the unamortized balance of capitalized acquisition costs. In determining amortization expense, future deferrable costs shall not be included before the incurrence and capitalization of those costs.

~~**> Universal Life-Type Contracts**~~

944-30-35-4 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Capitalized acquisition costs shall be amortized over the life of a book of universal life-type contracts at a constant rate based on the present value of the estimated gross profit amounts expected to be realized over the life of the book of contracts. Examples 1 and 2 (see paragraphs 944-30-55-2 through 55-10) illustrate the application of this guidance. The present value of estimated gross profits shall be computed using the **contract rate**. If significant negative gross profits are expected in any period, the present value of estimated gross revenues, gross costs, or the balance of insurance **in force** shall be substituted as the base for computing amortization.~~

944-30-35-5 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross profit, as the term is used in the preceding paragraph, shall include estimates of all of the following elements, each of which shall be determined based on the best estimate of that individual element over the life of the book of contracts without provision for adverse deviation:~~

~~a. **Cost of insurance** less benefit claims in excess of related policyholder balances~~
~~b. Amounts expected to be assessed for contract administration less costs incurred for contract administration including acquisition costs not included in capitalized acquisition costs, the latter of which consists of both of the following:~~
 ~~1. Policy-related costs that are not primarily related to the acquisition of business, such as policy administration, settlement, and **maintenance costs**~~
 ~~2. Policy-related acquisition costs that are not capitalized under paragraphs 944-30-25-3 through 25-4, such as ultimate renewal commission and recurring premium taxes.~~
~~c. Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances~~
~~d. **Surrender charges**~~
~~e. Other expected assessments and credits, however characterized.~~

~~Non-policy-related expenses, such as certain overhead costs, and costs that are related to the acquisition of business that are not capitalized under Section 944-30-25, such as certain advertising costs, shall not be included in estimated gross profit.~~

944-30-35-6 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The amortization method based on the present value of estimated gross profits described in the preceding two paragraphs differs from that in paragraph 944-30-35-1A, which is based on expected premium revenues.~~

944-30-35-7 Paragraph superseded by Accounting Standards Update No. 2018-12.~~In computing amortization, interest shall accrue to the unamortized balance of capitalized acquisition costs and unearned revenues at the rate used to discount expected gross profits. Estimates of expected gross profit used as a basis for amortization shall be evaluated regularly, and the total amortization recorded to date shall be adjusted by a charge or credit to the statement of earnings if actual experience or other evidence suggests that earlier estimates should be revised. The interest rate used to compute the present value of revised estimates of expected gross profits shall be either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining **benefit period**. The approach selected to compute the present value of revised estimates shall be applied consistently in subsequent revisions to computations of expected gross profits.~~

944-30-35-8 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Expected gains and losses from sales of investments related to universal life-type contracts shall be included in the determination of estimated gross profit, because earned investment income should be based on the expected total yield of the investments. If the timing and amount of realized gains and losses from the sales of investments change from those expected and materially affect the expected total yield and the estimated gross profits, acquisition-cost amortization shall be reevaluated.~~

~~**> > Contracts with Death or Other Insurance Benefit Features**~~

944-30-35-9 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The estimated gross profits used for the amortization of deferred acquisition costs shall be adjusted to reflect the recognition of the liability in accordance with paragraphs 944-40-35-10 through 35-11.~~

~~**> > Contracts That Provide Annuitization Benefits**~~

944-30-35-10 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The estimated gross profits used for the amortization of deferred acquisition costs shall be adjusted to reflect the recognition of the liability determined in accordance with paragraphs 944-40-35-12 through 35-13. Capitalized acquisition costs shall continue to be amortized over the present value of estimated gross profits, as adjusted, over the expected life of the book of contracts. For purposes of amortization of deferred acquisition costs, the life of the book of contracts excludes the **payout phase**.~~

~~**> Certain Participating Life Insurance Contracts**~~

944-30-35-11 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For long-duration participating life insurance contracts that meet the criteria in paragraph 944-20-15-3, capitalized acquisition costs shall be amortized over the life of a book of participating life insurance contracts at a constant rate, based on the present value of the estimated gross margin amounts expected to be realized over the life of the book of contracts. The present value of estimated gross margins shall be computed using the expected **investment yield**. If significant negative gross margins are expected in any period, then the present value of gross margins before annual dividends, estimated gross premiums, or the balance of insurance in force shall be substituted as the base for computing amortization.~~

944-30-35-12 Paragraph superseded by Accounting Standards Update No. 2018-12.~~In computing amortization, interest shall accrue to the unamortized balance of capitalized acquisition costs at the rate used to discount expected gross margins. Estimates of expected gross margins used as a basis for amortization shall be evaluated regularly, and the total amortization recorded to date shall be adjusted by a charge or credit to the statement of earnings if actual experience or other evidence suggests that earlier estimates shall be revised. The interest rate used to compute the present value of revised estimates of expected gross margins shall be either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining benefit period. The approach selected to compute the present value of revised estimates shall be applied consistently in subsequent revisions to computations of expected gross margins.~~

944-30-35-13 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross margin, as the term is used in paragraph 944-30-35-11, shall include estimates of all of the following:~~

~~a. Amounts expected to be received from premiums (an addition)~~
~~b. Amounts expected to be earned from investment of policyholder balances, that is, the **net level premium reserve** described in paragraph 944-40-25-29 (an addition)~~
~~c. All benefit claims expected to be paid (a deduction)~~
~~d. Costs expected to be incurred for contract administration, including acquisition costs not included in capitalized acquisition costs (a deduction)~~
~~e. Expected change in the net level premium reserve for death and endowment benefits (a deduction)~~
~~f. Expected **annual policyholder dividends** (a deduction)~~
~~g. Other expected assessments and credits, however characterized.~~

944-30-35-14 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross margins shall be determined on a best estimate basis, without provision for adverse deviation.~~

944-30-35-15 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Several dividend options may be available to the policyholder, in which instances the options generally can be changed during the life of the contract. In~~

~~estimating gross margins, an insurance entity shall use the best estimate of the dividend options that policyholders will elect.~~

944-30-35-16 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Example 2 (see paragraph 944-30-55-7) illustrates the computation of estimated gross margins, the amortization rate, and amortization amounts.~~

~~**> Limited-Payment Contracts**~~

944-30-35-17 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Deferred acquisition costs on **limited-payment contracts** shall be amortized in proportion to premium revenue recognized, as required by paragraph 944-30-25-1B. Premium revenue used in the calculation shall be the **gross premium** recorded, that is, the amount before adjustment for excess of gross over **net premiums** (the deferred profit liability).~~

> Sales Inducements

944-30-35-18 Sales inducements deferred under paragraph 944-30-25-7 shall be amortized using the same methodology and assumptions used to amortize capitalized acquisition costs. No interest shall accrue to the unamortized balance of deferred sales inducements. In determining the amortization expense, future deferrable sales inducements shall not be included before the incurrence and capitalization of those sales inducements. The payout phase is viewed as a separate contract under this Topic and shall not be combined with the **{remove glossary link}accumulation phase{remove glossary link}** for amortization of deferred sales inducements.

> Investment Contracts

944-30-35-19 The amortization method described ~~beginning in paragraph 944-30-35-4 for universal life-type contracts~~in paragraphs 944-30-35-3 through 35-3C shall be used to amortize acquisition costs deferred under paragraphs 944-30-25-1A through 25-1AA~~25-1B~~ for **investment contracts** that include significant **{add glossary link}**surrender charges**{add glossary link}** or that yield significant revenues from sources other than the investment of contract holders' funds.

944-30-35-20 Acquisition costs deferred under paragraphs 944-30-25-1A through 25-1AA~~25-1B~~ for other investment contracts shall be amortized using an accounting method that recognizes ~~acquisition and interest~~ costs as expenses at a constant rate applied to net policy liabilities and that is consistent with the **interest method** under Subtopic 310-20. ~~Under the interest method, the~~The incidence of surrenders (if they are **probable** and can be reasonably estimated) can be anticipated for purposes of determining the amortization period. The rate of amortization shall be adjusted for changes in the incidence of surrenders to be consistent with the handling of principal prepayments under Subtopic 310-20. **[Content amended as shown and moved from paragraph 944-30-35-21(b)]**

944-30-35-21 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Under both methods in the preceding paragraphs, assumptions used shall be updated to be consistent with the concepts underlying the method used:~~

~~a. Under the paragraph 944-30-35-4 method, assumptions shall be updated in compliance with paragraph 944-30-35-7.~~
~~b. Under the interest method, the incidence of surrenders (if they are **probable** and can be reasonably estimated) can be anticipated for purposes of determining the amortization period. The rate of amortization shall be adjusted for changes in the incidence of surrenders to be consistent with the handling of principal prepayments under Subtopic 310-20.~~ **[Content amended and moved to paragraph 944-30-35-20]**

944-30-35-22 Paragraph superseded by Accounting Standards Update No. 2018-12.~~If, with respect to the asset related to acquisition costs deferred under paragraphs 944-30-25-1A through 25-1B for investment contracts described in paragraph 944-30-35-19, it is determined that the amount at which the asset is stated is probably not recoverable, the asset should be reduced to the level that can be recovered.~~

944-30-35-23 Under some methods, the contract liabilities may be calculated net of deferred acquisition costs. In that event, the amounts of deferred acquisition costs and contract liabilities have to be determined separately.

Internal Replacement Transactions

> Contract Modifications Involving Integrated Contract Features

944-30-35-36 For contract modifications involving integrated contract features or coverages (other than those contract modifications described in paragraphs 944-30-35-26 through 35-29) the insurance entity shall review the conditions set forth in ~~the following~~ paragraph 944-30-35-37 to determine whether the contract has changed substantially as a result of the modification. As a result of that review, either of the following actions shall be taken:

a. Continuation. A contract modification meeting all of the conditions in ~~the following~~ paragraph 944-30-35-37 results in a replacement contract that is substantially unchanged from the replaced contract, and shall be accounted for as a continuation of the replaced contract in accordance with paragraphs 944-30-35-38 through 35-40 and 944-30-35-46 through 35-60.
b. Extinguishment. A contract modification that fails any of the conditions in ~~the following~~ paragraph 944-30-35-37 results in a replacement contract that is substantially changed from the replaced contract, and shall be accounted for as an extinguishment of the replaced contract in accordance with paragraphs 944-30-40-1 through 40-4.

~~> > > Long-Duration Contracts (Nontraditional)~~

944-30-35-41 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For nontraditional long-duration contracts, the estimated gross profits of the replacement contract are treated as revisions to the estimated gross profits or margins of the replaced contract in the determination of the amortization of deferred acquisition costs and deferred sales inducement assets and the recognition of unearned revenues.~~

944-30-35-42 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For contracts to which the interest method amortization methodology discussed in Subtopic 310-20 is applied, the replacement contract represents revisions to the cash flows of the replaced contract, and unamortized deferred acquisition costs and deferred sales inducement assets are adjusted accordingly.~~ **[Content moved to paragraph 944-30-35-48]**

944-30-35-43 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Other balances that are determined based on activity over the life of the contract, such as a liability for minimum guaranteed death benefits (which, under this Subtopic, is determined based on assessments and benefit costs) shall be calculated considering the entire revised life of the contract, including activity during the term of the replaced contract.~~ **[Content amended and moved to paragraph 944-30-35-51]**

944-30-35-44 Paragraph superseded by Accounting Standards Update No. 2018-12.~~If it is not reasonably practicable for an insurance entity to account for, in the manner described in paragraphs 944-30-35-41 through 35-43, a **contract exchange** that has resulted in a replacement contract that is substantially unchanged from the replaced contract, the insurance entity shall determine the balance of unamortized deferred acquisition costs related to the replaced contract to carry forward to the replacement contract and utilize estimated gross profits only of the replacement contract to determine future amortization. The total balance of unamortized deferred acquisition costs before the internal replacement shall be allocated between replaced contracts and contracts remaining in the original book of business based on a reasonable and systematic allocation process. Example 1 (see paragraph 944-30-55-12) illustrates one such allocation approach.~~ **[Content amended and moved to paragraph 944-30-35-47]**

944-30-35-45 Paragraph superseded by Accounting Standards Update No. 2018-12.~~In conjunction with the guidance in the preceding paragraph, the balance of unamortized deferred acquisition costs and other contract-related balances shall be updated based on the most current assumptions at the time of the internal replacement. All related accounting balances that use estimated gross profits or assessments as a base for amortization or recognition shall be handled in a similar manner.~~ **[Content amended and moved to paragraph 944-30-35-49]**

> > > Long-Duration Contracts ~~(Traditional)~~

944-30-35-46 For ~~traditional~~ long-duration contracts other than investment contracts described in paragraph 944-30-35-48, ~~the~~a replacement contract that is substantially unchanged shall be viewed as a prospective revision of the replaced contract with future amortization of unamortized deferred acquisition costs adjusted, accordingly, on a prospective basis. Under the prospective revision methodology for long-duration contracts other than certain investment contracts, the unamortized deferred acquisition costs ~~and benefit liability balances~~balance at the time of replacement ~~are~~is unchanged. **[Content amended as shown and moved from paragraph 944-30-35-47]**

944-30-35-47 ~~Under the prospective revision methodology, the unamortized deferred acquisition costs and benefit liability balances at the time of replacement are unchanged.~~ **[Content amended and moved to paragraph 944-30-35-46]** If it is not reasonably practicable for an insurance entity to account for~~, in the manner described in paragraphs 944-30-35-41 through 35-43,~~ a **contract exchange** that has resulted in a replacement contract that is substantially unchanged from the replaced contract, the insurance entity shall determine the balance of unamortized deferred acquisition costs related to the replaced contract to carry forward to the replacement contract and ~~utilize estimated gross profits only of the replacement contract to~~ determine future amortization on a prospective basis. The total balance of unamortized deferred acquisition costs before the internal replacement shall be allocated between replaced contracts and contracts remaining in the original book of business based on a reasonable and systematic allocation process. ~~Example 1 (see paragraph 944-30-55-12) illustrates one such allocation approach.~~ **[Content amended as shown and moved from paragraph 944-30-35-44]**

944-30-35-48 ~~Future increases and decreases to the unamortized deferred acquisition costs and benefit reserve balances shall reflect the revised revenue expected from the replacement contract at the time of replacement.~~For contracts to which the interest method amortization methodology discussed in Subtopic 310-20 is applied, the replacement contract represents revisions to the cash flows of the replaced contract, and unamortized deferred acquisition costs and deferred sales inducement assets are adjusted accordingly. **[Content moved from paragraph 944-30-35-42]**

944-30-35-49 ~~This approach preserves the lock-in principle and is consistent with the treatment of other premium changes on indeterminate premium life insurance and guaranteed renewable health insurance contracts. In conjunction with the guidance in the preceding paragraph, the~~The balance of unamortized deferred acquisition costs and other contract-related balances shall be updated based on the most current assumptions at the time of the internal replacement. ~~All related accounting balances that use estimated gross profits or assessments as a base for amortization or recognition shall be handled in a similar manner.~~ **[Content amended as shown and moved from paragraph 944-30-35-45]**

944-30-35-50 Any related liability for future policy benefits or **market risk benefits** for a substantially unchanged contract shall be updated as described in Subtopic 944-40 on claim costs and liabilities for future policy benefits.~~The prospective revision methodology shall be applied consistently for liabilities for policy benefits and unamortized deferred acquisition costs.~~

944-30-35-51 ~~Where the modification is a reduction in benefits with a directly proportionate reduction in premiums, the modification shall result in an immediate proportionate reduction in unamortized deferred acquisition costs rather than a prospective revision.~~Other balances that are determined based on activity over the life of the contract, such as ~~a~~an additional liability for ~~minimum guaranteed~~ death or other insurance benefits (which, under this Subtopic, is determined based on assessments and benefit costs) shall be calculated considering the entire revised life of the contract, including activity during the term of the replaced contract. **[Content amended as shown and moved from paragraph 944-30-35-43]**

> > > Short-Duration Contracts

944-30-35-52 ~~Similar to traditional long-duration contracts as discussed beginning in paragraph 944-30-35-46 a~~A revision to a short-duration contract is viewed as a prospective revision with future recognition of unearned premium and amortization of unamortized deferred acquisition costs adjusted, accordingly, on a prospective basis.

> Contract Assessments

944-30-35-61 **Front-end fees** assessed in connection with an internal replacement of a long-duration contract shall be evaluated for deferral in accordance with the guidance in Subtopic 944-605 on revenue recognition~~944-20~~.

944-30-35-62 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For contracts described in paragraphs 944-20-15-4 through 15-11, both new and existing front-end fees on an internal replacement that results in a replacement contract that is substantially unchanged from the replaced contract shall be adjusted to reflect the revisions to the estimated gross profits.~~

> Recoverability

944-30-35-63 Unamortized deferred acquisition costs for short-duration contracts and the present value of future profits continue to be subject to premium deficiency testing in accordance with the provisions of Subtopic 944-60.

Reinsurance Contracts

944-30-35-64 Proceeds from **reinsurance** transactions that represent recovery of **acquisition costs** shall reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in ~~proportion to net revenue recognized~~accordance with the amortization guidance in this Section that applies to those unamortized acquisition costs.

9. Amend paragraphs 944-30-40-3, 944-30-50-4, 944-30-55-2 and its related heading, 944-30-55-7 and its related heading, 944-30-55-11 through 55-14, 944-30-55-36, 944-30-55-39 through 55-40, 944-30-55-56, 944-30-55-58, 944-30-55-65 through 55-66, and 944-30-55-76, supersede paragraphs 944-30-50-2 and its related heading, 944-30-50-3 and its related heading, 944-30-55-3 through 55-6, 944-30-55-8 through 55-10, and 944-30-55-15 through 55-32 and their related headings, and add paragraphs 944-30-50-2A through 50-2B and 944-30-55-7A through 55-7B, with a link to transition paragraph 944-40-65-2, as follows:

Derecognition

Internal Replacement Transactions

> Contracts That Are Substantially Changed

944-30-40-3 Other balances associated with the replaced contract, such as any ~~liability for minimum guaranteed death benefits or guaranteed minimum income benefits~~**liability for future policy benefits** or **market risk benefits**, shall be accounted for based on an extinguishment of the replaced contract and issuance of a new contract.

Disclosure

Long-Duration Contracts

~~> Certain Participating Life Insurance Contracts~~

944-30-50-2 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The following shall be disclosed in the financial statements with respect to long-duration participating life insurance contracts that meet the criteria in paragraph 944-20-15-3:~~

- ~~a. The average rate of assumed investment yields used in estimating expected gross margins~~
- ~~b. The nature of **acquisition costs** capitalized, the method of amortizing those costs, and the amount of those costs amortized for the period.~~

944-30-50-2A For annual reporting periods, and to the extent required by Topic 270 on interim reporting, an insurance entity shall disclose the following information about deferred acquisition costs and sales inducements:

a. The nature of the costs deferred
b. Information about the inputs, judgments, assumptions, and methods used to determine amortization amounts and changes in those inputs, judgments, and assumptions.

944-30-50-2B For annual and interim reporting periods, an insurance entity shall disclose the following:

a. A year-to-date disaggregated tabular rollforward of the beginning to the ending balance of unamortized deferred costs—and balances amortized on a basis consistent with deferred **acquisition costs**, to the extent that such balances are not included in the tabular rollforwards required in Section 944-40-50—disaggregated in a manner that is consistent with the disaggregation of the related liability disclosures
b. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount in the statement of financial position.

~~**> Sales Inducements**~~

944-30-50-3 Paragraph superseded by Accounting Standards Update No. 2018-12.~~An insurance entity shall disclose all of the following:~~

~~a. The entity's accounting policy for **sales inducements**, including both of the following:~~
~~1. The nature of the costs deferred~~
~~2. The method of amortizing those deferred costs.~~
~~b. The amount of costs deferred and amortized for each of the periods presented~~
~~c. The unamortized balance of deferred costs as of each balance sheet date.~~

Internal Replacement Transactions

944-30-50-4 The notes to financial statements shall describe the accounting policy applied to internal replacements, including whether or not the entity has availed itself of the alternative application guidance outlined in paragraphs 944-30-35-47 and 944-30-35-49~~944-30-35-44 through 35-45~~ and, if so, for which types of **internal replacement** transactions.

Implementation Guidance and Illustrations

Long-Duration Contracts

> Illustrations

> > Example 1: Disclosure of Information about Deferred Acquisition Costs~~Capitalized Acquisition Cost for Portfolio of Universal-Life-Type Contracts~~

944-30-55-2 This Example illustrates the tabular rollforward that an insurance entity should disclose in its financial statements to meet the requirements of paragraph 944-30-50-2B(a). ~~accounting for capitalized **acquisition costs** incurred in connection with a portfolio or book of universal life-type contracts, projected over a 20-year period. This Example illustrates the computations involved in both:~~

a. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Amortizing that amount as gross profits and **surrender charges** are realized~~
b. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Revising estimates of gross profit expected to be realized (see paragraphs 944-30-35-4 through 35-7).~~

Note X: Deferred Acquisition Costs

The balances of and changes in deferred **acquisition costs** as of and for the years ended December 31, 20X2, and December 31, 20X1, respectively, follow.

[For ease of readability, the new illustration is not underlined.]

	As of December 31, 20X2			
	Whole Life	**Universal Life**	**Variable Universal Life**	**Total**
Balance, beginning of year	$ YYY	$ YYY	$ YYY	$ YYY
Capitalizations	XXX	XXX	XXX	XXX
Amortization expense	(XXX)	(XXX)	(XXX)	(XXX)
Experience adjustment	(XXX)	(XXX)	(XXX)	(XXX)
Balance, end of year	$ ZZZ	$ ZZZ	$ ZZZ	$ ZZZ

	As of December 31, 20X1			
	Whole Life	**Universal Life**	**Variable Universal Life**	**Total**
Balance, beginning of year	$ WWW	$ WWW	$ WWW	$ WWW
Capitalizations	XXX	XXX	XXX	XXX
Amortization expense	(XXX)	(XXX)	(XXX)	(XXX)
Experience adjustment	(XXX)	(XXX)	(XXX)	(XXX)
Balance, end of year	$ YYY	$ YYY	$ YYY	$ YYY

944-30-55-3 Paragraph superseded by Accounting Standards Update No. 2018-12.~~This Example has all of the following assumptions:~~

~~a. During Year 1, actual experience is assumed to be the same as management's estimate.~~
~~b. During Year 2, 20 percent of policyholders surrender their contracts.~~
~~c. Management's original estimate was that 12 percent of policyholders would surrender their contracts in Year 2.~~
~~d. Interest is credited to policyholder balances at 9 percent.~~

944-30-55-4 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The computation of estimated gross profit follows.~~

Year	Surrender Charges (a)	Mortality Assessments (b)	Mortality Cost Incurred (c)	Expense Assessments (d)	Recurring Expenses Incurred (e)	Investment Income Related to Policy Balances (f)	Interest Credited to Policy Balances (g)	Estimated Gross Profit	Revised Gross Profit at Year 2
1	$ 13,298	$ 17,300	$ (3,685)	$ 11,700	$ (12,176)	$ 6,405	$ (5,490)	$ 27,352	$ 27,352
2	13,169	15,099	(3,541)	9,356	(9,669)	10,571	(9,061)	25,924	34,637
3	7,314	14,104	(3,627)	8,229	(8,476)	14,436	(12,374)	19,606	17,822
4	4,656	13,604	(3,866)	7,566	(7,781)	18,356	(15,734)	16,801	15,273
5	3,645	13,199	(4,107)	7,108	(7,309)	22,405	(19,204)	15,737	14,304
6	2,739	12,791	(4,330)	6,676	(6,866)	26,286	(22,531)	14,765	13,422
7	1,929	12,950	(4,513)	6,270	(6,449)	29,957	(25,677)	14,467	13,151
8	1,208	12,905	(4,690)	5,888	(6,057)	33,447	(28,669)	14,032	12,756
9	567	12,755	(4,865)	5,529	(5,688)	36,779	(31,525)	13,552	12,320
10	-	12,593	(5,003)	5,191	(5,340)	39,965	(34,256)	13,150	11,954
11-20	-	108,164	(55,512)	37,183	(38,270)	551,879	(473,039)	130,405	118,543
21-50	-	140,607	(88,833)	32,577	(33,712)	2,618,726	(2,244,622)	424,743	386,112
Total	$ 48,525	$ 386,071	$ (186,572)	$ 143,273	$ (147,793)	$ 3,409,212	$ (2,922,182)	$ 730,534	$ 677,646
Present Value								$ 180,944	$ 176,087

~~Explanation of columns:~~

~~(a) Surrender charges realized on termination of contracts.~~
~~(b) Amounts assessed against policyholder balances for mortality coverage.~~
~~(c) Benefit claims, less the amount in the related policyholder balances.~~
~~(d) Amounts assessed against policyholder balances for contract administration on either a percentage or a fixed amount per contract basis.~~
~~(e) Recurring expenses not included in capitalized acquisition costs.~~
~~(f) Investment income earned on policyholder deposits, computed by multiplying policyholder balances by the expected asset earning rate of 10.5 percent.~~
~~(g) Interest that is accrued to policyholder account balances at the expected crediting rate of 9 percent.~~

944-30-55-5 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The amortization rate would be computed as follows.~~

		Original Estimate	Revised Estimate
Present value of estimated gross profit, years one to fifty (from Schedule One)	(x)	$ 180,944	$ 176,087
Present value of capitalized acquisition costs	(y)	$ 90,986	$ 90,986
Amortization rate = (y) / (x)	(z)	50.284%	51.671%

944-30-55-6 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Amortization amounts would be computed as follows.~~

	~~Original Estimate~~	~~Revised Estimate~~
~~Capitalized costs, year one~~	~~$ 77,780~~	~~$ 77,780~~
~~Interest accrual at 9 percent~~	~~7,000~~	~~7,000~~
~~Amortization, year one~~		
~~Gross profit of $27,352(from Schedule One) at rate (z) above~~	~~(13,754)~~	~~(14,133)~~
~~Balance, end of year one~~	~~71,026~~	~~70,647~~
~~Additional capitalized costs, year two~~	~~14,394~~	~~14,394~~
	~~85,420~~	~~85,041~~
~~Interest accrual at 9 percent~~	~~7,688~~	~~7,654~~
~~Amortization, year two~~		
~~Gross profit of $34,637 (from Schedule One) at 51.671% (revised rate from Schedule Two)~~	~~(17,897)~~	~~(17,897)~~
	~~$ 75,211~~	~~$ 74,798~~
~~Balance based on Original Estimate~~	~~$ 75,211~~	
~~Balance based on Revised Estimate~~	~~74,798~~	
~~Adjustment required~~	~~$ (413)~~	
~~Net amortization recognized~~		
~~In year one~~	~~$ 6,754~~	
~~In year two~~	~~$ 10,622~~	

> > Example 2: Computation of Amortization~~Gross Margins~~

944-30-55-7 This Example illustrates the computation of amortization on a constant level basis. In this Example, a block of long-duration guaranteed-renewable five-year term life insurance contracts are grouped and amortized in proportion to the amount of insurance **in force** to derive an approximate level amortization amount on an individual contract basis. In 20X1, the insurance entity defers costs totaling $80 and projects the balance of insurance in force over 5 years. The insurance entity would need to include mortality and lapse assumptions to project the balance of insurance in force; however, for ease of illustration, no mortality or lapses are assumed (see paragraph 944-30-55-7B for subsequent changes to the mortality and lapse assumptions). ~~guidance beginning in paragraph 944-30-35-11 on computation of estimated gross margins, the amortization rate, and amortization amounts.~~

[For ease of readability, the new illustration is not underlined.]

Schedule One

Year		**Balance of Insurance in Force**	
20X1	$	1,000	
20X2		1,000	
20X3		1,000	
20X4		1,000	
20X5		1,000	
Total	$	5,000	(x)
Capitalized acquisition costs	$	80	(y)
Amortization rate = (y) / (x)		1.60%	(z)

Schedule Two

Capitalized costs, year one	$ 80
Amortization, year one	
Balance of insurance in force of $1,000 (from Schedule One) at rate (z) above	(16)
Balance, end of year one	$ 64

944-30-55-7A At the beginning of 20X2, the entity incurs an additional $10 of deferrable acquisition costs and computes the amortization rate and expense for 20X2 as follows.

[For ease of readability, the new illustration is not underlined.]

Schedule Three

Year	**Balance of Insurance in Force**	
20X2	$ 1,000	
20X3	1,000	
20X4	1,000	
20X5	1,000	
Total	$ 4,000	(x)
Capitalized acquisition costs	$ 74	(y)
Amortization rate = (y) / (x)	1.85%	(z)

944-30-55-7B At the end of 20X2, the entity experienced unexpected contract terminations that resulted in the writeoff of deferred acquisition costs at the end of the reporting period. In addition, the entity updated the expected balance of insurance in force for the remaining periods.

[For ease of readability, the new illustration is not underlined.]

Schedule Four

Capitalized costs, year two	$ 74
Amortization, year two	
Balance of insurance in force of $1,000 (from Schedule Three) at rate (z) above	(19)
Experience adjustment, end of year two	
Change in balance of insurance in force $55 × [(1,000 – 700) / 1,000]	(17)
Balance, end of year two	$ 38

Schedule Five

Year	Balance of Insurance in Force	
20X3	$ 700	
20X4	400	
20X5	200	
Total	$ 1,300	(x)
Capitalized acquisition costs	$ 38	(y)
Amortization rate = (y) / (x)	2.92%	(z)

Schedule Six

Capitalized costs, year three	$ 38
Amortization, year three	
Balance of insurance in force of $700 (from Schedule Five) at rate (z) above	(20)
Balance, end of year three	$ 18

Schedule Seven
Deferred Acquisition Costs Rollforward

Year	Balance, Beginning of Year	Capitalization	Experience Adjustment	Amortization	Balance, End of Year
20X1	$ -	$ 80	$ -	$ (16)	$ 64
20X2	64	10	(17)	(19)	38
20X3	38	-	-	(20)	18
20X4	18	-	-	(12)	6
20X5	6	-	-	(6)	-
Total		$ 90	$ (17)	$ (73)	

944-30-55-8 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross margins would be computed as follows (with present values determined at earned rate of 8.5%).~~

~~Year~~	~~Premium~~	~~Interest on Net Level Premium Reserve~~	~~Interest on Current Activity~~	~~Death Benefits Incurred~~	~~Surrender Benefits Incurred~~	~~Recurring Expenses Incurred~~	~~(Increase) Decrease in Net Level Premium Reserve~~	~~Dividends Incurred~~	~~Post-Dividend Gross Margins~~	~~Revised Gross Margins at Year 2~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~	~~(f)~~	~~(g)~~	~~(h)~~	~~(i)~~	
~~1~~	~~$ 210,000~~	~~$ -~~	~~$ 16,244~~	~~$ (9,000)~~	~~$ -~~	~~$ (18,900)~~	~~$ (126,103)~~	~~$ (18,857)~~	~~$ 53,384~~	~~$ 53,384~~
~~2~~	~~184,611~~	~~10,719~~	~~14,280~~	~~(10,549)~~	~~-~~	~~(16,615)~~	~~(109,116)~~	~~(21,399)~~	~~51,931~~	~~50,546~~
~~3~~	~~169,621~~	~~19,994~~	~~13,120~~	~~(13,731)~~	~~(7,148)~~	~~(15,266)~~	~~(93,669)~~	~~(24,230)~~	~~48,691~~	~~47,419~~
~~4~~	~~155,763~~	~~27,955~~	~~12,048~~	~~(14,835)~~	~~(14,984)~~	~~(14,019)~~	~~(79,754)~~	~~(26,574)~~	~~45,600~~	~~44,432~~
~~5~~	~~142,990~~	~~34,735~~	~~11,060~~	~~(15,661)~~	~~(21,760)~~	~~(12,869)~~	~~(67,117)~~	~~(28,509)~~	~~42,869~~	~~41,797~~
~~6~~	~~131,222~~	~~40,440~~	~~10,150~~	~~(15,622)~~	~~(17,237)~~	~~(11,810)~~	~~(73,236)~~	~~(30,043)~~	~~33,864~~	~~32,880~~
~~7~~	~~124,333~~	~~46,665~~	~~9,617~~	~~(16,578)~~	~~(20,989)~~	~~(11,190)~~	~~(66,499)~~	~~(32,301)~~	~~33,058~~	~~32,126~~
~~8~~	~~117,768~~	~~52,317~~	~~9,109~~	~~(16,824)~~	~~(24,427)~~	~~(10,599)~~	~~(60,005)~~	~~(34,367)~~	~~32,972~~	~~32,089~~
~~9~~	~~111,526~~	~~57,417~~	~~8,627~~	~~(17,526)~~	~~(27,566)~~	~~(10,037)~~	~~(53,706)~~	~~(36,230)~~	~~32,505~~	~~31,669~~
~~10~~	~~105,582~~	~~61,982~~	~~8,167~~	~~(18,603)~~	~~(30,406)~~	~~(9,502)~~	~~(47,485)~~	~~(37,915)~~	~~31,820~~	~~31,028~~
~~11-20~~	~~779,517~~	~~760,283~~	~~60,296~~	~~(311,112)~~	~~(398,831)~~	~~(70,157)~~	~~(162,007)~~	~~(424,092)~~	~~233,827~~	~~227,980~~
~~21-55~~	~~589,392~~	~~1,222,685~~	~~45,589~~	~~(1,187,632)~~	~~(686,079)~~	~~(53,041)~~	~~938,767~~	~~(669,668)~~	~~200,013~~	~~195,591~~
~~Total~~	~~$ 2,822,325~~	~~$ 2,335,192~~	~~$ 218,307~~	~~$ (1,647,673)~~	~~$ (1,249,427)~~	~~$ (254,005)~~	~~$ -~~	~~$ (1,384,185)~~	~~$ 840,534~~	~~$ 820,941~~
									~~$ 371,621~~	~~$ 362,945~~

~~(a) Gross premiums.~~
~~(b) Interest, at the 8.5% earned rate, on net level premium reserve at the end of the previous year. The net level premium reserve is based on guaranteed mortality and the dividend fund interest rate.~~
~~(c) Interest, at the 8.5% earned rate, on current-year cash flow. This illustration assumes premiums are received, and all expenses incurred, at the start of the year. This illustration assumes death benefits, surrender benefits, and dividends are all at the end of the year.~~
~~(d) Death benefits, not reduced by related net level premium reserve.~~
~~(e) Surrender benefits, not reduced by related net level premium reserve.~~
~~(f) Recurring expenses not included in capitalized acquisition costs.~~
~~(g) Net decrease (increase) in aggregate net level premium reserve in the year.~~
~~(h) Policyholder dividends for the year.~~
~~(i) Sum of (a) through (h) inclusive.~~

944-30-55-9 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The amortization rate would be computed as follows.~~

		~~Original Estimate~~	~~Revised Estimate~~
~~Present value of estimated gross margins, years 1–55, evaluated at issue (from Schedule 1)~~	~~(a)~~	~~$ 371,261~~	~~$ 362,945~~
~~Present value of capitalized acquisition costs, years 1–55, evaluated at issue~~	~~(b)~~	~~$ 263,309~~	~~$ 263,309~~
~~Amortization rate = (b)/(a)~~	~~(c)~~	~~70.92%~~	~~72.55%~~

944-30-55-10 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The amortization amounts would be computed as follows.~~

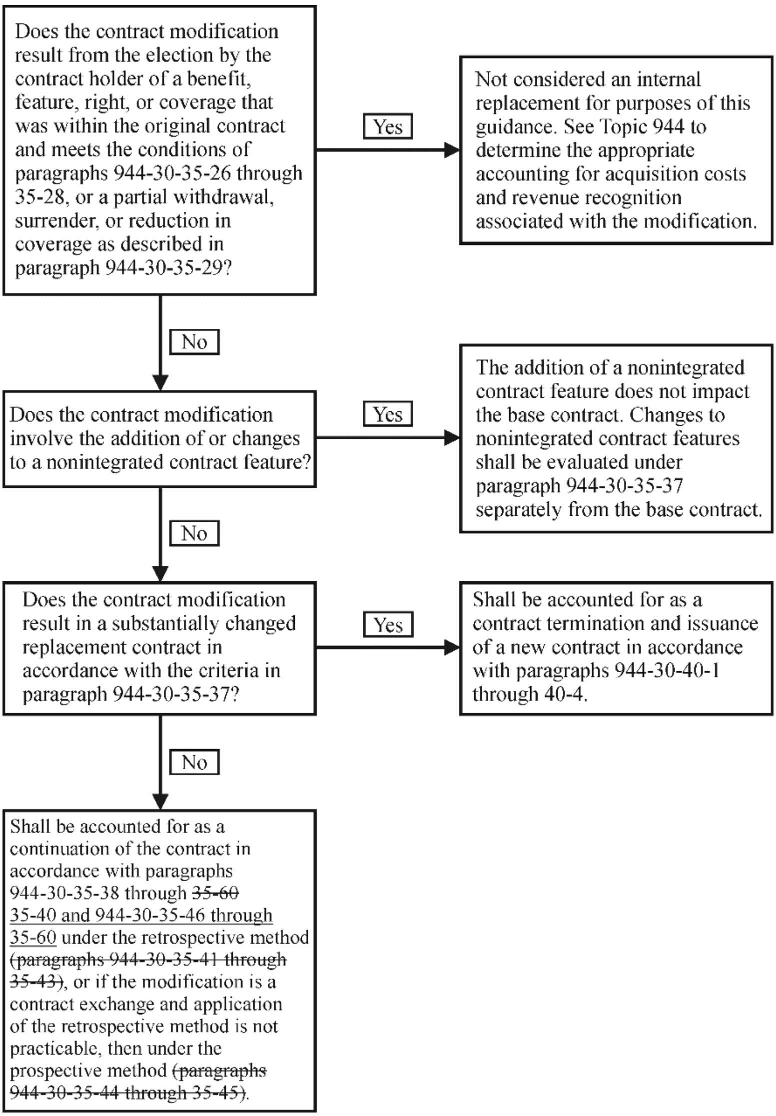
		~~Original Estimate~~	~~Revised Estimate~~
~~Capitalized costs, year 1~~		~~$ 241,500~~	~~$ 241,500~~
~~Interest accrual at 8.5%~~	~~(d)~~	~~20,528~~	~~20,528~~
~~Amortization, year 1~~			
~~Gross margin of 53,384 (from Schedule 1) at rate (c) above~~	~~(e)~~	~~(37,862)~~	~~(38,729)~~
~~Balance, end of year 1~~	~~(j)~~	~~224,166~~	~~223,299~~
~~Additional capitalized costs, year 2~~		~~9,231~~	~~9,231~~
		~~233,397~~	~~232,530~~
~~Interest accrual at 8.5%~~	~~(g)~~	~~19,839~~	~~19,765~~
~~Amortization, year 2~~			
~~Gross margin of 50,546 (from Schedule 1, revised column) at revised rate (c) above~~	~~(h)~~	~~(36,670)~~	~~(36,670)~~
~~Balance, end of year 2~~		~~$ 216,566~~	~~$ 215,625~~
~~Balance based on original estimate~~		~~$ 216,566~~	
~~Balance based on revised estimate~~		~~215,625~~	
~~Adjustment required~~		~~$ (941)~~	
~~Net amortization recognized:~~			
~~In year 1 (d + e)~~		~~$ 17,334~~	
~~In year 2 (g + h based on revised estimates + difference between f at original estimate and at revised estimate)~~		~~$ 17,772~~	

Internal Replacement Transactions

> Implementation Guidance

> > Summary of Internal Replacement Transactions Accounting Model

944-30-55-11 A flowchart summarizing the accounting model set out in the Internal Replacement Transactions Subsections of this Subtopic follows.



> Illustrations

> > Example 1: Internal Replacement Results in a Substantially Unchanged Contract

944-30-55-12 The following ~~Cases illustrate~~Example illustrates the application of the guidance in the Internal Replacement Transactions Subsections of this Subtopic to an **internal replacement** transaction that results in a substantially unchanged ~~contract:~~contract.

a. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~**Replacement contract** estimates revise **replaced contract** estimates (Case A).~~
b. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Alternative allocation approach (Case B).~~

944-30-55-13 This Example assumes the following~~Cases A and B share all of the following assumptions~~:

a. An insurance entity is offering to replace its **general account** single premium deferred **{add glossary link}**annuity contracts**{add glossary link}** with newer general account single premium deferred annuity contracts.
b. The insurance entity assumes that 50 percent of the **existing contract** holders choose the internal replacement at the end of Year 5.
c. No **surrender charges** from the **original contract** will be imposed on contract holders who elect to have their contracts replaced.
d. The contract holder who elects the new contract will receive a higher interest crediting rate than under the older contract but must accept a new surrender charge period.
e. The insurance entity expects that **persistency** rates will improve under the **{add glossary link}**replacement contracts**{add glossary link}** as a result of the new surrender charge period and the higher credited interest.

944-30-55-14 The exchange of the single premium deferred **{remove glossary link}annuity contract{remove glossary link}** for a newer single premium deferred annuity contract in this Example results in the replacement contract being substantially unchanged from the **{add glossary link}**replaced contract**{add glossary link}**, due to the following:

a. The insured event or risk, type, or period of **coverage** of the contract has not changed, as noted by no significant changes in the kind and degree of **mortality risk**, **morbidity** risk, or other **insurance risk**, if any.
b. The nature of the investment return rights, if any, have not changed.
c. No additional deposit, premium, or charge relating to the original benefit, in excess of amounts contemplated in the original contract, is required to effect the transaction.

d. Other than distributions to the contract holder or contract designee, there is no net reduction in the contract holder's account value or, for contracts not having an explicit or implicit account value, the cash surrender value, if any.
e. There is no change in the participation or dividend features of the contract, if any.
f. There is no change to the ~~amortization method or~~ revenue classification of the contract.

944-30-55-15 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Case A illustrates the application of the guidance in paragraphs 944-30-35-41 through 35-43 whereby the estimated gross profits of the replacement contract are accounted for as revisions to the estimated gross profits of the replaced contract in the determination of the amortization of deferred **acquisition costs** and deferred sales inducement assets and the recognition of unearned revenues.~~

944-30-55-16 Paragraph superseded by Accounting Standards Update No. 2018-12.~~An alternative allocation approach may be used if it is not reasonably practicable for an insurance entity to account for, in the manner described in paragraphs 944-30-35-41 through 35-43, a **contract exchange** that has resulted in a replacement contract that is substantially unchanged from the replaced contract. The insurance entity may then determine an appropriate balance of unamortized deferred acquisition costs related to the replaced contract to carry forward to the replacement contract, and utilize only estimated gross profits of the replacement contract to determine future amortization. Case B illustrates such an alternative allocation approach.~~

944-30-55-17 Paragraph superseded by Accounting Standards Update No. 2018-12.~~In both Cases, the insurance entity's accounting policy is to let the discount rate fluctuate with changes in interest crediting rates in accordance with the guidance in paragraph 944-30-35-7.~~

~~> > > Case A: Replacement Contract Estimates Revise Replaced Contract Estimates~~

944-30-55-18 Paragraph superseded by Accounting Standards Update No. 2018-12.~~This Case illustrates the guidance in paragraphs 944-30-35-41 through 35-43 in which the estimated gross profits or margins of the replacement contract are accounted for as revisions to the estimated gross profits or margins of the replaced contract in the determination of the amortization of deferred acquisition costs and deferred sales inducement assets and the recognition of unearned revenues.~~

944-30-55-19 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The deferred acquisition costs and unearned revenue liability amortization of the original contract (before replacement) follow.~~

~~Contract Year~~	~~Discount Rate~~	~~Account Value End of Year~~	~~Deposits~~	~~Acquisition Costs~~	~~Front-End Fees~~	~~EGPs~~	~~Deferred Acquisition Costs Balance End of Year~~	~~Unearned Revenue Liability Balance End of Year~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~	~~(f)~~	~~(g)~~	~~(h)~~
~~1 (Act.)~~	6.00%	~~$ 30,694,950~~	~~$ 30,000,000~~	~~$ 1,925,000~~	~~$ 300,000~~	~~$ 302,094~~	~~$ 1,775,253~~	~~$ 276,663~~
~~2 (Act.)~~	~~7.00~~	~~31,201,417~~	~~-~~	~~-~~	~~-~~	~~356,730~~	~~1,586,302~~	~~247,216~~
~~3 (Act.)~~	~~7.50~~	~~28,510,294~~	~~-~~	~~-~~	~~-~~	~~517,263~~	~~1,251,103~~	~~194,977~~
~~4 (Act.)~~	~~6.50~~	~~22,772,598~~	~~-~~	~~-~~	~~-~~	~~549,372~~	~~850,060~~	~~132,477~~
~~5 (Act.)~~	~~5.50~~	~~16,817,563~~	~~-~~	~~-~~	~~-~~	~~414,428~~	~~532,934~~	~~83,055~~
~~6 (Proj.)~~	~~5.50~~	~~12,419,771~~	~~-~~	~~-~~	~~-~~	~~253,964~~	~~339,258~~	~~52,871~~
~~7 (Proj.)~~	~~5.50~~	~~9,172,001~~	~~-~~	~~-~~	~~-~~	~~149,039~~	~~227,057~~	~~35,385~~
~~8 (Proj.)~~	~~5.50~~	~~6,773,522~~	~~-~~	~~-~~	~~-~~	~~81,593~~	~~167,904~~	~~26,167~~
~~9 (Proj.)~~	~~5.50~~	~~5,002,246~~	~~-~~	~~-~~	~~-~~	~~60,646~~	~~123,889~~	~~19,307~~
~~10 (Proj.)~~	~~5.50~~	~~3,694,159~~	~~-~~	~~-~~	~~-~~	~~45,060~~	~~91,139~~	~~14,203~~
~~11 (Proj.)~~	~~5.50~~	~~2,728,136~~	~~-~~	~~-~~	~~-~~	~~33,468~~	~~66,765~~	~~10,405~~
~~12 (Proj.)~~	~~5.50~~	~~2,014,729~~	~~-~~	~~-~~	~~-~~	~~24,850~~	~~48,619~~	~~7,577~~
~~13 (Proj.)~~	~~5.50~~	~~1,487,877~~	~~-~~	~~-~~	~~-~~	~~18,445~~	~~35,097~~	~~5,470~~
~~14 (Proj.)~~	~~5.50~~	~~1,098,797~~	~~-~~	~~-~~	~~-~~	~~13,687~~	~~25,010~~	~~3,898~~
~~15 (Proj.)~~	~~5.50~~	~~811,462~~	~~-~~	~~-~~	~~-~~	~~10,154~~	~~17,470~~	~~2,723~~
~~16 (Proj.)~~	~~5.50~~	~~599,265~~	~~-~~	~~-~~	~~-~~	~~7,531~~	~~11,818~~	~~1,842~~
~~17 (Proj.)~~	~~5.50~~	~~442,557~~	~~-~~	~~-~~	~~-~~	~~5,584~~	~~7,565~~	~~1,179~~
~~18 (Proj.)~~	~~5.50~~	~~326,828~~	~~-~~	~~-~~	~~-~~	~~4,140~~	~~4,347~~	~~677~~
~~19 (Proj.)~~	~~5.50~~	~~241,363~~	~~-~~	~~-~~	~~-~~	~~3,068~~	~~1,892~~	~~295~~
~~20 (Proj.)~~	~~5.50~~	~~-~~	~~-~~	~~-~~	~~-~~	~~2,273~~	~~-~~	~~-~~
~~Present values~~				~~1,925,000~~	~~300,000~~	~~2,192,412~~		
~~k factor~~			~~0.87803~~	~~0.87803~~	~~0.13684~~			

~~Explanation of columns:~~

~~(a) Discount rate for Topic 944 product, which is the rate that accrues to contract holder balances.~~
~~(b) Prior year-end account value plus interest credited less fees less withdrawals.~~
~~(c) Premium deposits at beginning of contract year.~~
~~(d) Deferrable acquisition costs as defined in Topic 944, assumed to be incurred as of the beginning of the year.~~
~~(e) Front-end fees charged to contract holders at beginning of year for services to be provided over life of contract.~~
~~(f) Estimated gross profits as defined in Topic 944.~~
~~(g) Ending deferred acquisition costs balance as defined in Topic 944 using estimated gross profits as basis for amortization. End of year deferred acquisition costs = Beginning of year deferred acquisition costs + acquisition costs + interest – amortization (f * 0.87803).~~

~~(h) Ending unearned revenue liability as defined in Topic 944 using estimated gross profits as basis for amortization. End of year unearned revenue liability = Beginning of year unearned revenue liability + front-end fees + interest – amortization (f * 0.13684)~~

944-30-55-20 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The account balances for contracts that have elected to participate in the internal replacement transaction at the end of Year 5 follow.~~

~~Contract Year~~	~~Account Value End of Year~~	~~Esimated Gross Profits~~	~~Discount Rate~~
	~~(a)~~	~~(b)~~	~~(c)~~
~~At Replacement~~	~~$ 8,408,782~~		
~~6 (Proj.)~~	~~8,669,979~~	~~$ 5,228~~	~~5.75%~~
~~7 (Proj.)~~	~~8,710,078~~	~~82,455~~	~~5.75%~~
~~8 (Proj.)~~	~~8,520,090~~	~~90,295~~	~~5.75%~~
~~9 (Proj.)~~	~~8,108,995~~	~~91,087~~	~~5.75%~~
~~10 (Proj.)~~	~~7,503,355~~	~~85,007~~	~~5.75%~~
~~11 (Proj.)~~	~~6,744,578~~	~~73,107~~	~~5.75%~~
~~12 (Proj.)~~	~~5,884,223~~	~~57,140~~	~~5.75%~~
~~13 (Proj.)~~	~~4,978,052~~	~~39,242~~	~~5.75%~~
~~14 (Proj.)~~	~~4,211,432~~	~~33,424~~	~~5.75%~~
~~15 (Proj.)~~	~~3,562,872~~	~~28,457~~	~~5.75%~~
~~16 (Proj.)~~	~~3,014,190~~	~~24,218~~	~~5.75%~~
~~17 (Proj.)~~	~~2,550,004~~	~~20,604~~	~~5.75%~~
~~18 (Proj.)~~	~~2,157,304~~	~~17,523~~	~~5.75%~~
~~19 (Proj.)~~	~~1,825,079~~	~~14,898~~	~~5.75%~~
~~20 (Proj.)~~	~~-~~	~~12,663~~	~~5.75%~~

~~Explanation of columns:~~

~~(a) 50 percent of original contracts account value at replacement; thereafter, prior year-end account value plus interest credited less fees less withdrawals.~~

~~(b) Estimated gross profits as defined in Topic 944. Estimated gross profits in Year 6 reflects commissions of 0.75 percent of account value paid at time of replacement that is not deferrable under this Topic.~~

~~(c) Discount rate for Topic 944 product, which is the rate at which contract holder's funds accumulate.~~

944-30-55-21 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~The account balances and interest crediting rates for both the replacement contracts and the contracts not electing to participate in the internal replacement transaction follow.~~

~~**50 Percent of Original Contracts' Account Value Replaced with New Contracts**~~

Contract Year	Account Value End of Year Original Contracts	Account Value End of Year Replacement Contracts	Interest Crediting Rate Original Contracts	Interest Crediting Rate Replacement Contracts	Interest Crediting Rate Weighted Average
	(a)	(b)	(c)	(d)	(e)
At Issue	$ 29,700,000	-	6.00%	—	6.00%
1	30,694,950	-	7.00	—	7.00
2	31,201,417	-	7.50	—	7.50
3	28,510,294	-	6.50	—	6.50
4	22,772,598	-	5.50	—	5.50
5	16,817,563				
At Replacement	8,408,782	$ 8,408,782	5.50	5.75%	5.63
6	6,209,885	8,669,979	5.50	5.75	5.65
7	4,586,000	8,710,078	5.50	5.75	5.66
8	3,386,761	8,520,090	5.50	5.75	5.68
9	2,501,123	8,108,995	5.50	5.75	5.69
10	1,847,079	7,503,355	5.50	5.75	5.70
11	1,364,068	6,744,578	5.50	5.75	5.71
12	1,007,364	5,884,223	5.50	5.75	5.71
13	743,939	4,978,052	5.50	5.75	5.72
14	549,399	4,211,432	5.50	5.75	5.72
15	405,731	3,562,872	5.50	5.75	5.72
16	299,632	3,014,190	5.50	5.75	5.73
17	221,278	2,550,004	5.50	5.75	5.73
18	163,414	2,157,304	5.50	5.75	5.73
19	120,681	1,825,079	5.50	5.75	5.73
20	—	—	—	—	—

~~Explanation of columns:~~

~~(a) Account value at the end of the contract year for original contracts (beginning in Year 6, this represents account value related to those contracts not electing the replacement).~~

~~(b) Account value at the end of the contract year for replacement contracts (per paragraph 944-30-55-20, Column a).~~

~~(c) Interest crediting rate on original contracts; beginning in Year 6 this represents the interest crediting rate on those contracts not electing the replacement.~~

~~(d) Interest crediting rate on replacement contracts.~~

~~(e) Interest crediting rate weighted by account value.~~

944-30-55-22 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The estimated gross profits, deferred acquisition costs, and **front-end fees** for both the replacement contracts and the contracts not electing to participate in the internal replacement transaction follow.~~

~~**50 Percent of Original Contracts' Account Value Replaced with New Policies**~~

~~Contract Year~~	~~Estimated Gross Profits Original Contracts~~	~~Estimated Gross Profits Replacement Contracts~~	~~Combined Estimated Gross Profits~~	~~Deferred Acquisition Costs~~	~~Front-End Fees~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~
~~1 (Act.)~~	~~$ 302,094~~		~~$ 302,094~~	~~$ 1,925,000~~	~~$ 300,000~~
~~2 (Act.)~~	~~356,730~~		~~356,730~~		
~~3 (Act.)~~	~~517,263~~		~~517,263~~		
~~4 (Act.)~~	~~549,372~~		~~549,372~~		
~~5 (Act.)~~	~~414,428~~		~~414,428~~		
~~6 (Proj.)~~	~~126,982~~	~~5,228~~	~~132,210~~		
~~7 (Proj.)~~	~~74,520~~	~~82,455~~	~~156,975~~		
~~8 (Proj.)~~	~~40,797~~	~~90,295~~	~~131,092~~		
~~9 (Proj.)~~	~~30,323~~	~~91,087~~	~~121,410~~		
~~10 (Proj.)~~	~~22,530~~	~~85,007~~	~~107,537~~		
~~11 (Proj.)~~	~~16,734~~	~~73,107~~	~~89,841~~		
~~12 (Proj.)~~	~~12,425~~	~~57,140~~	~~69,565~~		
~~13 (Proj.)~~	~~9,223~~	~~39,242~~	~~48,465~~		
~~14 (Proj.)~~	~~6,844~~	~~33,424~~	~~40,268~~		
~~15 (Proj.)~~	~~5,077~~	~~28,457~~	~~33,534~~		
~~16 (Proj.)~~	~~3,765~~	~~24,218~~	~~27,984~~		
~~17 (Proj.)~~	~~2,792~~	~~20,604~~	~~23,396~~		
~~18 (Proj.)~~	~~2,070~~	~~17,523~~	~~19,593~~		
~~19 (Proj.)~~	~~1,534~~	~~14,898~~	~~16,432~~		
~~20 (Proj.)~~	~~1,137~~	~~12,663~~	~~13,799~~		
~~**Present values**~~			~~2,328,377~~	~~$ 1,925,000~~	~~$ 300,000~~
~~**k factor**~~				~~0.8267561~~	~~0.1288451~~

~~Explanation of columns:~~

~~(a) Estimated gross profits from original policies (beginning in Year 6, this represents estimated gross profits related to those contracts not electing the replacement).~~

~~(b) Estimated gross profits from replacement policies.~~

~~(c) Combined estimated gross profits.~~

~~(d) Deferrable acquisition costs from original policies.~~

~~(e) Front-end fees from original policies.~~

944-30-55-23 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The determination of the revised deferred acquisition costs and unearned revenue liability balances for the combination of both replacement contracts and the contracts not electing to participate in the internal replacement transaction follows.~~

	Deferred Acquisition Cost Amortization				Unearned Revenue Amortization			
Contract Year	Acquisition Costs	Interest Added	Amortization	Deferred Acquisition Costs (End of Year)	Front-End Fees	Interest Added	Amortization	Unearned Revenue Liability (End of Year)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1 (Act.)	$ 1,925,000	$ 115,500	$ (249,758)	$ 1,790,742	$ 300,000	$ 18,000	$ (38,923)	$ 279,077
2 (Act.)	-	125,352	(294,929)	1,621,165	-	19,535	(45,963)	252,649
3 (Act.)	-	121,587	(427,650)	1,315,102	-	18,949	(66,647)	204,951
4 (Act.)	-	85,482	(454,197)	946,387	-	13,322	(70,784)	147,489
5 (Act.)	-	52,052	(342,631)	655,808	-	8,112	(53,397)	102,204
6 (Proj.)	-	36,889	(109,305)	583,392	-	5,749	(17,035)	90,918
7 (Proj.)	-	32,936	(129,780)	486,548	-	5,133	(20,225)	75,826
8 (Proj.)	-	27,557	(108,381)	405,724	-	4,295	(16,891)	63,230
9 (Proj.)	-	23,041	(100,377)	328,388	-	3,590	(15,643)	51,177
10 (Proj.)	-	18,689	(88,907)	258,170	-	2,913	(13,856)	40,234
11 (Proj.)	-	14,717	(74,277)	198,610	-	2,294	(11,576)	30,952
12 (Proj.)	-	11,337	(57,513)	152,434	-	1,767	(8,963)	23,756
13 (Proj.)	-	8,710	(40,069)	121,075	-	1,357	(6,244)	18,869
14 (Proj.)	-	6,923	(33,292)	94,706	-	1,079	(5,188)	14,760
15 (Proj.)	-	5,418	(27,724)	72,400	-	844	(4,321)	11,283
16 (Proj.)	-	4,144	(23,136)	53,408	-	646	(3,606)	8,323
17 (Proj.)	-	3,059	(19,343)	37,124	-	477	(3,014)	5,786
18 (Proj.)	-	2,127	(16,198)	23,053	-	331	(2,524)	3,593
19 (Proj.)	-	1,322	(13,585)	10,790	-	206	(2,117)	1,682
20 (Proj.)	-	619	(11,409)	-	-	96	(1,778)	-

~~Explanation of columns:~~

~~(a) Total deferrable acquisition costs from original policies.~~

~~(b) Interest on deferred acquisition costs.~~

~~(c) Deferred acquisition cost amortization (k-factor per paragraph 944-30-55-22, column d x total revised estimated gross profits per paragraph 944-30-55-22, column c).~~

~~(d) Ending deferred acquisition costs = Beginning of year deferred acquisition costs + (a) + (b) + (c).~~

~~(e) Total front-end fees from original policies.~~

~~(f) Interest on unearned revenue liability.~~

~~(g) Unearned revenue liability amortization (k-factor per paragraph 944-30-55-22, column e x total revised estimated gross profits per paragraph 944-30-55-22, column c).~~

~~(h) Ending unearned revenue liability = Beginning of year unearned revenue liability + (e) + (f) + (g).~~

944-30-55-24 Paragraph superseded by Accounting Standards Update No. 2018-12.~~A summary of deferred acquisition costs and unearned revenue liability balances as a result of an internal replacement that is not substantially different follows.~~

	~~Deferred Acquisition Costs~~	~~Unearned Revenue Liability~~
~~Original contracts before replacement (year 5 balances, per paragraph 944-30-55-19, columns g and h)~~	~~$ 532,934~~	~~$ 83,055~~
~~Combined contracts after replacement (year 5 balances, per paragraph 944-30-55-23, columns d and h)~~	~~655,808~~	~~102,204~~
	~~$ (122,874)~~	~~$ (19,149)~~

~~Summary of Accounting Entries~~		
~~Deferred acquisition costs~~	~~$ 122,874~~	
~~Amortization~~		~~$ 122,874~~
~~Change in Unearned Revenue~~	~~$ 19,149~~	
~~Unearned Revenue Liability~~		~~$ 19,149~~

~~> > > Case B: Alternative Allocation Approach~~

944-30-55-25 Paragraph superseded by Accounting Standards Update No. 2018-12.~~This Case illustrates an alternative allocation approach that may be used if it is not reasonably practicable for an insurance entity to account for, in the manner described in paragraphs 944-30-35-41 through 35-43, a contract exchange that has resulted in a replacement contract that is substantially unchanged from the replaced contract. The insurance entity may then determine the balance of unamortized deferred acquisition costs related to the replaced contract to carry forward to the replacement contract, and utilize estimated gross profits or margins only of the replacement contract to determine future amortization. This Case illustrates such an alternative allocation approach.~~

944-30-55-26 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The deferred acquisition costs and unearned revenue liability amortization of the original contract (before replacement) follow.~~

Contract Year	Discount Rate	Account Value End of Year	Deposits	Acquisition Costs	Front-End Fees	Esimated Gross Profits	Deferred Acquisition Costs Balance End of Year	Unearned Revenue Liability Balance End of Year
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1 (Act.)	6.00%	$ 30,694,950	$ 30,000,000	$ 1,925,000	$ 300,000	$ 302,094	$ 1,775,253	$ 276,663
2 (Act.)	7.00%	31,201,417	-	-	-	356,730	1,586,302	247,216
3 (Act.)	7.50%	28,510,294	-	-	-	517,263	1,251,103	194,977
4 (Act.)	6.50%	22,772,598	-	-	-	549,372	850,060	132,477
5 (Act.)	5.50%	16,817,563	-	-	-	414,428	532,934	83,055
6 (Proj.)	5.50%	12,419,771	-	-	-	253,964	339,258	52,871
7 (Proj.)	5.50%	9,172,001	-	-	-	149,039	227,057	35,385
8 (Proj.)	5.50%	6,773,522	-	-	-	81,593	167,904	26,167
9 (Proj.)	5.50%	5,002,246	-	-	-	60,646	123,889	19,307
10 (Proj.)	5.50%	3,694,159	-	-	-	45,060	91,139	14,203
11 (Proj.)	5.50%	2,728,136	-	-	-	33,468	66,765	10,405
12 (Proj.)	5.50%	2,014,729	-	-	-	24,850	48,619	7,577
13 (Proj.)	5.50%	1,487,877	-	-	-	18,445	35,097	5,470
14 (Proj.)	5.50%	1,098,797	-	-	-	13,687	25,010	3,898
15 (Proj.)	5.50%	811,462	-	-	-	10,154	17,470	2,723
16 (Proj.)	5.50%	599,265	-	-	-	7,531	11,818	1,842
17 (Proj.)	5.50%	442,557	-	-	-	5,584	7,565	1,179
18 (Proj.)	5.50%	326,828	-	-	-	4,140	4,347	677
19 (Proj.)	5.50%	241,363	-	-	-	3,068	1,892	295
20 (Proj.)	5.50%	-	-	-	-	2,273	-	-
Present Values				$ 1,925,000	$ 300,000	$ 2,192,412		
k-factor				0.87803	0.13684			

~~Explanation of columns:~~

~~(a) Discount rate for Topic 944 product, which is the rate that accrues to contract holder balances.~~
~~(b) Prior year-end account value plus premiums plus interest credited less fees less withdrawals.~~
~~(c) Premium deposits at beginning of contract year.~~
~~(d) Deferrable acquisition costs as defined in Topic 944, assumed to be incurred as of the beginning of the year.~~
~~(e) Front-end fees charged to contract holders at beginning of year for services to be provided over life of contract.~~
~~(f) Estimated gross profits as defined in Topic 944.~~
~~(g) Ending deferred acquisition costs balance as defined in Topic 944 using estimated gross profits as basis for amortization. End of year deferred acquisition costs = Beginning of year deferred acquisition costs + acquisition costs + interest – amortization (f * 0.87803).~~
~~(h) Ending unearned revenue liability balance as defined in Topic 944 using estimated gross profits as basis for amortization. End of year unearned revenue liability = Beginning of year unearned revenue liability + front-end fees + interest – amortization (f * 0.13684).~~

944-30-55-27 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The following table illustrates calculations of the revised balances for deferred acquisition costs and unearned revenue liability for contracts not electing to participate in the internal replacement transaction. Account value and balances on estimated gross profits related to replacement contracts are eliminated prospectively from the end of Year 5, when contracts are assumed to be replaced for purposes of this Example. The differences in the balances for deferred acquisition costs and unearned revenue liability are allocated to replacement contracts and treated as if they were deferrable acquisition costs and front-end fees, respectively, incurred at the inception of the replacement contracts.~~

Contract Year	Discount Rate	Account Value End of Year	Deposits	Acquisition Costs	Front-End Fees	Estimated Gross Profits	Deferred Acquisition Costs Balance End of Year	Unearned Revenue Liability Balance End of Year
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1 (Act.)	6.00%	$30,694,950	$30,000,000	$ 1,925,000	$ 300,000	$ 302,094	$ 1,745,439	$ 272,016
2 (Act.)	7.00%	31,201,417				356,730	1,519,194	236,757
3 (Act.)	7.50%	28,510,294	-	-	-	517,263	1,127,912	175,778
4 (Act.)	6.50%	22,772,598	-	-	-	549,372	664,643	103,581
5 (Act.)	5.50%	8,408,782	-	-	-	414,428	296,419	46,195
6 (Proj.)	5.50%	6,209,885				126,982	188,696	29,407
7 (Proj.)	5.50%	4,586,000	-	-	-	74,520	126,289	19,681
8 (Proj.)	5.50%	3,386,761	-	-	-	40,797	93,388	14,554
9 (Proj.)	5.50%	2,501,123				30,323	68,907	10,739
10 (Proj.)	5.50%	1,847,079				22,530	50,691	7,900
11 (Proj.)	5.50%	1,364,068	-	-	-	16,734	37,135	5,787
12 (Proj.)	5.50%	1,007,364	-	-	-	12,425	27,042	4,214
13 (Proj.)	5.50%	743,939				9,223	19,521	3,042
14 (Proj.)	5.50%	549,399				6,844	13,910	2,168
15 (Proj.)	5.50%	405,731	-	-	-	5,077	9,717	1,514
16 (Proj.)	5.50%	299,632	-	-	-	3,765	6,573	1,024
17 (Proj.)	5.50%	221,278				2,792	4,208	656
18 (Proj.)	5.50%	163,414	-	-	-	2,070	2,418	377
19 (Proj.)	5.50%	120,681	-	-	-	1,534	1,052	164
20 (Proj.)	5.50%	-	-	-	-	1,137	-	-
Present Values				$ 1,925,000	$ 300,000	$1,970,881		
k-factor				0.97672	0.15222			

~~Explanation of columns:~~

~~(a) Discount rate for Topic 944 product, which is the rate that accrues to contract holder balances.~~

~~(b) Prior year-end account value plus premiums plus interest credited less fees less withdrawals (including replacements).~~

~~(c) Premium deposits at beginning of contract year.~~

~~(d) Deferred acquisition costs as defined in Topic 944 assumed to be incurred as of the beginning of the year.~~

~~(e) Front end fees charged to contract holders at beginning of year for services to be provided over life of contract.~~

~~(f) Estimated gross profits as defined in Topic 944.~~

~~(g) Ending deferred acquisition costs balance as defined in Topic 944 using estimated gross profits as basis for amortization. End of year deferred acquisition costs = Beginning of year deferred acquisition costs + acquisition costs + interest – amortization(f x 0.97672).~~

~~(h) Ending unearned revenue liability balance as defined in Topic 944 using estimated gross profits as basis for amortization. End of year unearned revenue liability = Beginning of year unearned revenue liability + front end fees + interest – amortization(f x 0.15222).~~

944-30-55-28 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The balances calculated for deferred acquisition costs and unearned revenue liability to be allocated to the replacement contracts follow.~~

	~~Deferred Acquisition Costs Balance~~	~~Unearned Revenue Liability Balance~~
	~~(a)~~	~~(b)~~
~~Balances just prior to replacement~~	~~$ 532,934~~	~~$ 83,055~~
~~Balances just after replacement, for contracts not electing to participate in the internal replacement transaction at the end of Year 5~~	~~296,419~~	~~46,195~~
~~Carryover amounts, allocated to contracts choosing the internal replacement at end of Year 5~~	~~$ 236,515~~	~~$ 36,860~~

~~Explanation of columns:~~

~~(a)~~ ~~Deferred acquisition costs balances end of Year 5 from paragraphs 944-30-55-26 and 55-27.~~

~~(b)~~ ~~Unearned revenue liability balances end of Year 5 from paragraphs 944-30-55-26 and 55-27.~~

944-30-55-29 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The account value, deferred acquisition costs, front-end fees, and estimated gross profits calculated for contracts that have elected the internal replacement transaction at the end of Year 5 follow.~~

~~Contract Year~~	~~Account Value End of Year~~	~~Acquisition Costs~~	~~Front-End Fees~~	~~Estimated Gross Profits~~	~~Discount Rate~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~
~~At Replacement~~	~~$ 8,408,782~~	~~$ 236,515~~	~~$ 36,860~~		
~~6 (Proj.)~~	~~8,669,979~~	~~-~~	~~-~~	~~$ 5,228~~	~~5.75%~~
~~7 (Proj.)~~	~~8,710,078~~	~~-~~	~~-~~	~~82,455~~	~~5.75%~~
~~8 (Proj.)~~	~~8,520,090~~	~~-~~	~~-~~	~~90,295~~	~~5.75%~~
~~9 (Proj.)~~	~~8,108,995~~	~~-~~	~~-~~	~~91,087~~	~~5.75%~~
~~10 (Proj.)~~	~~7,503,355~~	~~-~~	~~-~~	~~85,007~~	~~5.75%~~
~~11 (Proj.)~~	~~6,744,578~~	~~-~~	~~-~~	~~73,107~~	~~5.75%~~
~~12 (Proj.)~~	~~5,884,223~~		~~-~~	~~57,140~~	~~5.75%~~
~~13 (Proj.)~~	~~4,978,052~~	~~-~~	~~-~~	~~39,242~~	~~5.75%~~
~~14 (Proj.)~~	~~4,211,432~~	~~-~~	~~-~~	~~33,424~~	~~5.75%~~
~~15 (Proj.)~~	~~3,562,872~~			~~28,457~~	~~5.75%~~
~~16 (Proj.)~~	~~3,014,190~~	~~-~~	~~-~~	~~24,218~~	~~5.75%~~
~~17 (Proj.)~~	~~2,550,004~~	~~-~~	~~-~~	~~20,604~~	~~5.75%~~
~~18 (Proj.)~~	~~2,157,304~~	~~-~~	~~-~~	~~17,523~~	~~5.75%~~
~~19 (Proj.)~~	~~1,825,079~~			~~14,898~~	~~5.75%~~
~~20 (Proj.)~~	~~-~~	~~-~~	~~-~~	~~12,663~~	~~5.75%~~
~~Present Values~~		~~$ 236,515~~	~~$ 36,860~~	~~$ 489,000~~	
~~k-factor~~		~~0.4837~~	~~0.0754~~		

~~Explanation of columns:~~

~~(a) Prior year-end account value plus premiums plus interest credited less fees less withdrawals (per paragraph 944-30-55-21, column b).~~

~~(b) Carryover deferred acquisition costs as defined in Topic 944, assumed to be incurred as of the beginning of the year (carryover amount calculated per paragraph 944-30-55-28).~~

~~(c) Carryover front-end fees charged to contract holders at beginning of year for services to be provided over life of contract (carryover amount calculated per paragraph 944-30-55-28)~~

~~(d) Estimated gross profits as defined in Topic 944 (per paragraph 944-30-55-22, column b).~~

~~(e) Discount rate for Topic 944 product, which is the rate at which contract holder's funds accumulate.~~

944-30-55-30 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The calculated deferred acquisition costs and unearned revenue liability amortization of contracts that have elected the internal replacement transaction at the end of Year 5 follow.~~

	Deferred Acquisition Costs Amortization				Unearned Revenue Amortization			
Contract Year	Acquisition Costs	Interest Added	Amortization	Deferred Acquisition Costs (End of Year)	Front-End Fees	Interest Added	Amortization	Unearned Revenue Lability (End of Year)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
6 (Proj.)	$ 236,515	$ 13,599	$ (2,529)	$ 247,585	$ 36,860	$ 2,119	$ (394)	$ 38,585
7 (Proj.)	-	14,236	(39,881)	221,940	-	2,219	(6,215)	34,589
8 (Proj.)	-	12,762	(43,673)	191,029	-	1,989	(6,806)	29,772
9 (Proj.)	-	10,984	(44,056)	157,957	-	1,712	(6,866)	24,618
10 (Proj.)	-	9,083	(41,115)	125,925	-	1,415	(6,408)	19,625
11 (Proj.)	-	7,241	(35,360)	97,806	-	1,128	(5,511)	15,242
12 (Proj.)	-	5,624	(27,637)	75,793	-	877	(4,307)	11,812
13 (Proj.)	-	4,357	(18,980)	61,170	-	679	(2,958)	9,533
14 (Proj.)	-	3,517	(16,166)	48,521	-	548	(2,519)	7,562
15 (Proj.)	-	2,790	(13,764)	37,547	-	435	(2,145)	5,852
16 (Proj.)	-	2,159	(11,714)	27,992	-	336	(1,826)	4,362
17 (Proj.)	-	1,610	(9,965)	19,637	-	251	(1,553)	3,060
18 (Proj.)	-	1,129	(8,475)	12,291	-	176	(1,321)	1,915
19 (Proj.)	-	707	(7,206)	5,792	-	110	(1,123)	902
20 (Proj.)	-	333	(6,125)	-	-	52	(954)	-

~~Explanation of columns:~~

(a) ~~Carryover deferred acquisition costs.~~
(b) ~~Interest on deferred acquisition costs.~~
(c) ~~Deferred acquisition costs amortization (—factor x estimated gross profits, per paragraph 944-30-55-29).~~
(d) ~~Ending deferred acquisition costs = Beginning of year deferred acquisition costs + (a) + (b) +(c).~~
(e) ~~Total front-end fees from original and replacement policies.~~
(f) ~~Interest on unearned revenue liability.~~
(g) ~~Unearned revenue liability amortization (—factor x estimated gross profits, per paragraph 944-30-55-29).~~
(h) ~~Ending unearned revenue liability = Beginning of year unearned revenue liability + (e) + (f) + (g).~~

944-30-55-31 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The calculated total deferred acquisition costs and unearned revenue liability balances for contracts that have not elected the internal replacement transaction and replacement contracts follow.~~

~~Contract Year~~	~~Deferred Acquisition Costs Original Contracts~~	~~Deferred Acquisition Costs Replaced Contracts~~	~~Total Deferred Acquisition Costs~~	~~Unearned Revenue Liability Original Contracts~~	~~Unearned Revenue Liability Replaced Contracts~~	~~Total Unearned Revenue Liability~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~	~~(f)~~
~~1 (Act.)~~	~~$ 1,745,439~~		~~$ 1,745,439~~	~~$ 272,016~~		~~$ 272,016~~
~~2 (Act.)~~	~~1,519,194~~		~~1,519,194~~	~~236,757~~		~~236,757~~
~~3 (Act.)~~	~~1,127,912~~		~~1,127,912~~	~~175,778~~		~~175,778~~
~~4 (Act.)~~	~~664,643~~		~~664,643~~	~~103,581~~		~~103,581~~
~~5 (Act.)~~	~~296,419~~	~~$ 236,515~~	~~532,934~~	~~46,195~~	~~$ 36,860~~	~~83,055~~
~~6 (Proj.)~~	~~188,696~~	~~247,585~~	~~436,281~~	~~29,407~~	~~38,585~~	~~67,992~~
~~7 (Proj.)~~	~~126,289~~	~~221,940~~	~~348,229~~	~~19,681~~	~~34,589~~	~~54,270~~
~~8 (Proj.)~~	~~93,388~~	~~191,029~~	~~284,417~~	~~14,554~~	~~29,772~~	~~44,326~~
~~9 (Proj.)~~	~~68,907~~	~~157,957~~	~~226,864~~	~~10,739~~	~~24,618~~	~~35,357~~
~~10 (Proj.)~~	~~50,691~~	~~125,925~~	~~176,616~~	~~7,900~~	~~19,625~~	~~27,525~~
~~11 (Proj.)~~	~~37,135~~	~~97,806~~	~~134,941~~	~~5,787~~	~~15,242~~	~~21,029~~
~~12 (Proj.)~~	~~27,042~~	~~75,793~~	~~102,835~~	~~4,214~~	~~11,812~~	~~16,026~~
~~13 (Proj.)~~	~~19,521~~	~~61,170~~	~~80,691~~	~~3,042~~	~~9,533~~	~~12,575~~
~~14 (Proj.)~~	~~13,910~~	~~48,521~~	~~62,431~~	~~2,168~~	~~7,562~~	~~9,730~~
~~15 (Proj.)~~	~~9,717~~	~~37,547~~	~~47,264~~	~~1,514~~	~~5,852~~	~~7,366~~
~~16 (Proj.)~~	~~6,573~~	~~27,992~~	~~34,565~~	~~1,024~~	~~4,362~~	~~5,386~~
~~17 (Proj.)~~	~~4,208~~	~~19,637~~	~~23,845~~	~~656~~	~~3,060~~	~~3,716~~
~~18 (Proj.)~~	~~2,418~~	~~12,291~~	~~14,709~~	~~377~~	~~1,915~~	~~2,292~~
~~19 (Proj.)~~	~~1,052~~	~~5,792~~	~~6,844~~	~~164~~	~~902~~	~~1,066~~
~~20 (Proj.)~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~

~~Explanation of columns:~~

~~(a) End of year deferred acquisition costs for original contracts. After Year 6, deferred acquisition costs related to contracts not electing the internal replacement transaction (per paragraph 944-30-55-27, column g).~~

~~(b) End of year deferred acquisition costs for contracts electing the internal replacement transaction at the end of Year 5 (per paragraph 944-30-55-30, column d).~~

~~(c) Combined end of year deferred acquisition costs .~~

~~(d) End of year unearned revenue liability for original contracts. After Year 6, unearned revenue liability related to contracts not electing the internal replacement transaction (per paragraph 944-30-55-27, column h).~~

~~(e) End of year unearned revenue liability for contracts electing the internal replacement transaction at the end of Year 5 (per paragraph 944-30-55-30, column h).~~

~~(f) Combined end of year unearned revenue liability.~~

944-30-55-32 Paragraph superseded by Accounting Standards Update No. 2018-12.~~A summary of deferred acquisition costs and unearned revenue liability balances as a result of an internal replacement that is not substantially different follows.~~

	~~Deferred Acquisition Costs~~	~~Unearned Revenue Liability~~
~~Original (Year 5 balances)~~	~~$ 532,934~~	~~$ 83,055~~
~~Nonreplaced Contracts (Year 5 balances)~~	~~296,419~~	~~46,195~~
~~After Replacement (Year 5 balances)~~	~~236,515~~	~~36,860~~
	~~$ 532,934~~	~~$ 83,055~~
~~Difference~~	~~$ -~~	~~$ -~~

~~Summary of Accounting Entries~~		
~~Deferred Acquisition Costs~~	~~$ -~~	
~~Deferred Acquisition Costs Amortization~~		~~$ -~~
~~Change in Unearned Revenue~~	~~$ -~~	
~~Unearned Revenue Liability~~		~~$ -~~

> > Example 2: Contract Modifications and Evaluating Internal Replacements for Substantial Change

944-30-55-33 The following represents implementation guidance for contract modifications and the application of the guidance in Section 944-30-35 for evaluating whether the internal replacements are substantially changed from the replaced contracts. The guidance is based on the specific facts and circumstances; the same conclusions may not be reached for other modifications because of differing facts or circumstances. The following cases represent contract modifications.

> > > Case C: Issuance of a Second Life Insurance Policy for an Incremental Face Amount

944-30-55-36 The contract holder obtains a second life insurance policy for an incremental face amount, with underwriting required on the new policy only. The original contract remains in force without change. This transaction does not fall within the definition of an internal replacement in Section 944-30-35. The accounting for the original contract remains unchanged and the new contract is accounted for independently of the original contract. Any deferrable **{add glossary link}**acquisition costs**{add glossary link}** associated with the new contract are deferred and amortized in accordance with the guidance in Section 944-30-35~~according to the revenue or margin stream of the new contract~~, as applicable.

> > > Case E: Universal Life-Type Contracts

> > > > Case E1: Increase in Face Amount of Universal Life-Type Contract

944-30-55-39 The increase in face amount of a universal life-type contract through an amendment to the original contract is considered an integrated feature as the death benefit under a universal life-type contract is equal to the excess of face amount over contract account value. In this example, only the additional face amount has been underwritten during the contract amendment and the additional premium charged is not in excess of an amount that would be commensurate with the additional insurance coverage obtained. This contract amendment to increase the face amount of a universal life-type contract results in the replacement contract being substantially unchanged from the replaced contract due to the following:

a. The modification does not result in a change in the insured event, as there is no significant change in the kind and degree of mortality risk. Although the face amount of the contract has increased, it is appropriate in this example to analyze the change in degree of mortality risk by comparing the relationship of the expected cost of the benefit to charges assessed for that benefit, and there was no significant change in this relationship.
b. There is no change in the nature of the investment return rights from the replaced contract.
c. There are no changes in the charges related to the original benefits; also, the additional **{add glossary link}**cost of insurance**{add glossary link}** is not in excess of an amount commensurate with the additional insurance coverage obtained.
d. There is no net decrease in the balance available to the contract holder, except to pay the cost of insurance charge for the increased coverage.
e. There is no change in the participation or dividend feature of the replaced contract.
f. The modification does not result in a change to either the amortization method or revenue classification of the contract.

> > > > Case E2: Universal Life-Type Contract to Universal Life-Type Contract with a No-Lapse Guarantee

944-30-55-40 A universal-life type contract may contain a no-lapse guarantee feature that provides for continuing coverage of the contract even if the account value drops to a level that cannot cover the contract charges. The **{add glossary link}**contract exchange**{add glossary link}** of a universal life-type contract for a universal life-type contract that contains a no-lapse guarantee results in the replacement contract being substantially changed from the replaced contract because the addition of the no-lapse guarantee changes both the period of coverage of the contract as well as introduces a combination of mortality and investment risk. The analysis would be the same if the change had been achieved through the addition of a no-lapse guarantee rider, as it would be considered an integrated benefit (the benefit is a function of the contract account value) and would need to meet the conditions of paragraph 944-30-35-37. If, however, the contract holder had elected to add a no-lapse guarantee feature that was included in the original contract (and met the specifications of paragraphs 944-30-35-26 through 35-28), the modification would not be considered an internal replacement.

> > > Case H: Annuity Contracts

> > > > Case H1: Single Premium Deferred Annuity to Market Value Adjusted Annuity

944-30-55-56 In this guidance, there is no significant difference in the declared interest crediting rate (further, the change in interest rates is consistent with the change in declaration period), no change in the guaranteed minimum interest rate, no additional deposit or premium is required, and there are no surrender charges or **{add glossary link}**front-end fees**{add glossary link}** associated with the internal replacement. The contract exchange of a single premium deferred annuity contract for a market value annuity contract results in the replacement contract being substantially unchanged from the replaced contract as a result of the following:

a. The insured event has not changed from the replaced contract.
b. The exchange does not change the nature of the contract holder's investment return rights (crediting rate declared by insurance entity, subject to guaranteed minimum crediting rate). The single premium deferred annuity and the market value annuity are both contracts for which the interest rate is periodically reset by the insurance entity~~insurer~~ subject to a minimum interest rate guaranteed by the contract and, in this example, the current declared interest period does not represent substantially all of the expected life of the contract. The difference between the single premium deferred annuity and the market value annuity results from the manner in which the amount available to the contract holder is determined in the event the contract is terminated prematurely, not the contractual rights and provisions for the determination of the contract holder's investment return in the absence of a premature termination of the contract.
c. No additional deposit or premium is required, and there are no changes in the charges related to the original benefits.
d. There is no net decrease in the balance available to the contract holder.
e. There is no change in the participation or dividend features of the replaced contract.
f. There is no change in the amortization method or revenue classification of the replaced contract.

> > > > Case H2: Single Premium Deferred Annuity to Equity-Indexed Annuity

944-30-55-58 A single premium deferred annuity has a crediting rate that is set at the discretion of the insurance entity. An equity-indexed annuity is a deferred fixed annuity contract with a guaranteed minimum crediting rate plus a contingent return based on a contractually specified internal or external equity index. Equity-indexed annuities typically are classified as investment contracts with embedded derivatives that are required to be bifurcated from the contract and accounted for separately under ~~Topic 815-10.~~Topic 815 (see paragraphs 815-15-55-62 through 55-72). Generally, the equity index feature represents a periodic crediting rate mechanism that affects the amounts credited to the contract holder's account balance, rather than representing a benefit in addition to the account balance that protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk. Periodic crediting rate mechanisms are required to be evaluated for possible bifurcation under Topic 815. However, an equity-indexed annuity also may contain one or more **market risk benefits** (see paragraphs 944-40-55-29A through 55-29D).

> > > Case J: Variable Annuity Contracts

> > > > Case J1: Variable Annuity with Return of Premium Death Benefit Guarantee to Variable Annuity with Ratchet Death Benefit Guarantee

944-30-55-65 The contract exchange of a variable annuity with a return of premium death benefit guarantee, that in this example is determined to have a minimal degree of mortality risk (although sufficient to result in classification as an insurance contract), for a variable annuity that contains a ratchet death benefit guarantee, that in this example is determined to be a "rich" death benefit, results in the replacement contract being substantially changed from the replaced contract as the change in death benefits substantively changes the degree of mortality risk. The nature of a minimum guaranteed death benefit provision is essentially a combination of mortality and investment events. Although the actual mortality event itself is the same in the return of premium and ratchet guaranteed minimum death benefits (death of the contract holder), the risk has changed because of the combined effects of mortality and investment events. In this instance, the preparer analyzed and concluded that a significant change ~~in the benefit ratio, as well as~~ in the actuarially determined expected mortality costs~~, were~~ was indicative of a significant change in the degree of mortality risk. It should be noted that other methods and approaches could have been used to evaluate the change in degree of mortality.

> > > > Case J2: Variable Annuity with Rollup Death Benefit Guarantee to Variable Annuity with Ratchet Death Benefit Guarantee

944-30-55-66 In this guidance, it is assumed that both the variable annuity with the rollup death benefit guarantee and the variable annuity with the ratchet death benefit guarantee offered as an internal replacement are determined to have similar degrees of mortality risk. In this instance, the preparer compared actuarially determined expected mortality costs, and since the costs were similar, it was indicative that the degree of mortality risk was also similar. It should be noted that other methods and approaches could have been used to evaluate the change in degree of mortality. It is also assumed that there is no reunderwriting required for the transaction, no additional deposit required to effect the transaction, and no net decrease in the balance available to the contract holder prior to surrender charges. In this guidance, the replacement results in additional mortality and expense charges due to the enhanced death benefit guarantee not in excess of an amount commensurate with the added benefit. A contract exchange of a variable annuity contract that contains a minimum guaranteed death benefit that is determined to have significant mortality risk with a variable annuity contract that contains another kind of minimum guaranteed death benefit that is determined to have a comparable degree of mortality risk, results in the replacement contract being substantially unchanged from the replaced contract as a result of the following:

a. The exchange does not result in a significant change in the kind and degree of mortality risk.
b. The exchange does not change the nature of the contract holder's investment return rights.
c. No additional deposit or premium is required relating to the variable annuity (the original benefit), and the additional charges for the ratchet death benefit guarantee are not in excess of an amount commensurate with the benefit.
d. There is no net decrease in the balance available to the contract holder.
e. There is no change in the participation or dividend features of the contracts.
f. There is no change to the ~~amortization method or~~ revenue classification of the replaced contract.

> > > > Case J7: Variable Annuity to Variable Annuity with Guaranteed Minimum Withdrawal Benefit

944-30-55-76 A variable annuity with a guaranteed minimum withdrawal benefit is classified as an investment contract with a market risk benefit~~an embedded derivative~~. The contract exchange of a variable annuity for a variable annuity that contains a guaranteed minimum withdrawal benefit results in the replacement contract being substantially changed from the replaced contract because the addition of a guaranteed minimum withdrawal benefit, an integrated contract feature, changes the investment return rights of the contract holder, as a minimum investment return provision, via the guaranteed withdrawal amount, to the variable annuity. The analysis would be the same if the change had been achieved through the addition of a guaranteed minimum withdrawal benefit rider. If, however, the contract holder had elected to add a guaranteed minimum withdrawal benefit feature that was included in the original contract (and met the specifications in paragraph~~paragraphs~~ 944-30-35-26~~ through 35-28~~), the modification would not be considered an internal replacement.

Amendments to Subtopic 944-40

10. Amend paragraphs 944-40-15-6, 944-40-25-11 and its related heading, 944-40-25-25 and the related heading, 944-40-25-26 through 25-27 and their related

heading, and 944-40-25-40 through 25-41, supersede paragraphs 944-40-25-25A and its related heading and 944-40-25-28 and its related heading, and add paragraphs 944-40-25-25B through 25-25D and their related headings and 944-40-25-27A and its related heading, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Claim Costs and Liabilities for Future Policy Benefits

Scope and Scope Exceptions

Long-Duration Contracts

> Instruments

944-40-15-6 The guidance in the Long-Duration Contracts Subsections of this Subtopic applies ~~only~~ to long-duration ~~contracts.~~contracts, including **investment contracts** with respect to nontraditional contract benefits referenced in paragraph 944-40-25-25B. See the Long-Duration Contracts Subsection of Section 944-20-15 for a discussion of what constitutes a long-duration contract.

Recognition

Long-Duration Contracts

> Overall

944-40-25-7 A liability for expected costs relating to most types of long-duration contracts shall be accrued over the current and expected renewal periods of the contracts.

944-40-25-8 The present value of estimated future policy benefits to be paid to or on behalf of policyholders less the present value of estimated future **net premiums** to be collected from policyholders—that is, a **liability for future policy benefits**—shall be accrued when premium revenue is recognized.

944-40-25-9 In addition, as discussed in paragraph 944-40-25-1 liabilities for unpaid claims and **claim adjustment expenses** shall be accrued when insured events occur.

944-40-25-10 A liability for future policy benefits relating to long-duration contracts other than title insurance contracts shall be accrued when premium revenue is recognized.

> Traditional and Limited-Payment Long-Duration Contracts

944-40-25-11 The liability for future policy benefits represents~~can be viewed as either of the following: The~~ the present value of future benefits to be paid to or on behalf of policyholders and certain related expenses less the present value of future net premiums receivable~~payable~~ under the insurance contracts. In no event shall net premiums exceed gross premiums. **[Content amended as shown and moved from (a)]**

a. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~The present value of future benefits to be paid to or on behalf of policyholders and expenses less the present value of future net premiums payable under the insurance contracts~~ **[Content amended and moved above]**
b. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~The accumulated amount of net premiums already collected less the accumulated amount of benefits and expenses already paid to or on behalf of policyholders.~~

> Universal Life-Type Contracts and Nontraditional Contract Benefits

> > Balance That Accrues to the Benefit of Policyholders

> > > Contracts with Surrender Adjustments

944-40-25-25 The accrued account balance shall not reflect surrender adjustments (for example, **market value annuity** adjustments, surrender charges, or credits). For a description of a market value annuity and market value annuity adjustments, see paragraph 944-20-05-28.~~ Example 1 (see paragraph 944-40-55-6) illustrates the calculation of the liability for future policy benefits for a contract with a~~ ~~**minimum guaranteed death benefit**~~~~.~~

~~**> > Universal Life-Type Contracts with Death or Other Insurance Benefit Features**~~

944-40-25-25A Paragraph superseded by Accounting Standards Update No. 2018-12.~~See paragraph 944-605-25-8 for guidance for establishing an unearned revenue liability.~~

> > Additional Liability

944-40-25-25B The following guidance addresses contracts or contract features that provide for potential benefits in addition to the account balance:

a. An insurance entity shall first determine at contract inception whether such benefits should be accounted for under the provisions of paragraph 944-40-25-25C.
b. For benefits that are not accounted for under the provisions of paragraph 944-40-25-25C, an~~An~~ insurance entity shall then~~first~~ determine whether such benefits~~contract features~~ should be accounted for under the provisions of Subtopic 815-10 or 815-15. **[Content amended as shown and moved from paragraph 944-40-25-26]**

c. All other benefits shall be accounted for under the provisions of paragraphs 944-40-25-26 through 25-27A, as applicable.

> > > Market Risk Benefits

944-40-25-25C A contract or contract feature that both provides protection to the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk shall be recognized as a **market risk benefit**.

944-40-25-25D In evaluating whether a contract or contract feature meets the conditions in paragraph 944-40-25-25C, an insurance entity shall consider that:

a. Protection refers to the transfer of a loss in, or shortfall (that is, the difference between the account balance and the benefit amount) of, the contract holder's account balance from the contract holder to the insurance entity, with such transfer exposing the insurance entity to capital market risk that would otherwise have been borne by the contract holder (or beneficiary).
b. Protection does not include the death benefit component of a life insurance contract (that is, the difference between the account balance and the death benefit amount). This condition does not apply to an investment contract or an annuity contract (including an annuity contract classified as an insurance contract).
c. A nominal risk, as explained in paragraph 944-20-15-21, is a risk of insignificant amount or a risk that has a remote probability of occurring. A market risk benefit is presumed to expose the insurance entity to other-than-nominal capital market risk if the benefit would vary more than an insignificant amount in response to capital market volatility.

> > >~~> > Contracts with~~ Annuitization Benefits

944-40-25-26 This guidance addresses contract features that provide for potential benefits in addition to the account balance that are payable only upon **{add glossary link}**annuitization,**{add glossary link}** such as annuity purchase ~~guarantees,~~guarantees or **{add glossary link}**guaranteed minimum income benefits**{add glossary link}** that are not market risk benefits, and two-tier annuities. ~~An insurance entity shall first determine whether such contract features should be accounted for under the provisions of Subtopic 815-10 or 815-15.~~ **[Content amended and moved to paragraph 944-40-25-25B(b)]**

944-40-25-27 If the contract feature is not required to be accounted for under paragraph 944-40-25-25C or the provisions of Topic 815 on derivatives and hedging~~Subtopic 815-10 or 815-15~~, an additional liability for the contract feature shall be established if the present value of expected annuitization payments at the expected annuitization date exceeds the expected account balance at the expected annuitization date.

<u>> > > Death or Other Insurance Benefits</u>

<u>944-40-25-27A</u> <u>If the contract feature is not required to be accounted for under paragraph 944-40-25-25C or the provisions of Topic 815 on derivatives and hedging and if</u>~~If~~ the amounts assessed against the contract holder each period for the insurance benefit feature of an insurance contract are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function, a liability for <u>death or other insurance benefits</u>~~unearned revenue~~ shall be recognized in addition to the account balance. **[Content amended as shown and moved from paragraph 944-605-25-8]**

~~**> Limited-Payment Contracts**~~

944-40-25-28 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~For **limited-payment contracts**, the liability for policy benefits shall be established in accordance with the guidance beginning in paragraph 944-40-25-7.~~

Reinsurance Contracts

944-40-25-40 A reinsurer may agree to reinsure all or a portion of certain **{add glossary link}**annuitization**{add glossary link}** <u>or death or other insurance</u> benefits (see paragraphs ~~944-40-25-26 through 25-27~~<u>944-40-25-25B through 25-27A</u>). Both the **ceding entity** and the reinsurer shall first determine whether such a reinsurance contract should be accounted for under the **<u>market risk benefit</u>** provisions of <u>paragraph 944-40-25-25C</u>~~Subtopic 815-10 or 815-15. For example, unlike many of the direct contracts that contain guaranteed minimum income benefits, contracts to reinsure guaranteed minimum income benefits often meet the definition of a derivative instrument under Subtopic 815-10~~. <u>For reinsurers, the reference to the account balance in paragraph 944-40-25-25D refers to the underlying contract between the direct writer and the contract holder. If the reinsurance contract is not accounted for under the market risk benefit provisions of paragraph 944-40-25-25C, both the ceding entity and the reinsurer shall then determine whether such a reinsurance contract should be accounted for under the provisions of Subtopic 815-10 or 815-15.</u>

944-40-25-41 If the reinsurance contract is not required to be accounted for under the provisions of <u>paragraph 944-40-25-25C or</u> Subtopic 815-10 or 815-15, the entity shall apply the guidance in <u>paragraphs 944-40-25-26 through 25-27A</u>~~paragraph 944-40-25-27~~.

11. Supersede paragraphs 944-40-30-6, 944-40-30-10, 944-40-30-19A, and 944-40-30-25, amend paragraphs 944-40-30-7 through 30-9 and the related headings, 944-40-30-13 through 30-16 and the related heading, 944-40-30-19, the heading preceding paragraph 944-40-30-19A, 944-40-30-20, 944-40-30-22, 944-40-30-24, 944-40-30-26 through 30-27 and their related heading, and 944-40-30-29 through 30-30, and add paragraphs 944-40-30-7A, 944-40-30-19B through 19D and the related heading, the heading preceding paragraph 944-40-30-20, 944-40-30-22A,

and 944-40-30-29A and its related heading, with a link to transition paragraph 944-40-65-2, as follows:

Initial Measurement

Long-Duration Contracts

> Overall

944-40-30-6 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimates for purposes of recognizing the **liability for future policy benefits** under paragraph 944-40-25-8 shall be based on assumptions, such as estimates of expected investment yields, **mortality**, **morbidity**, **terminations**, and expenses, applicable at the time the insurance contracts are made~~.

> Traditional and Limited-Payment Long-Duration Contracts

944-40-30-7 The **{add glossary link}**liability for future policy benefits**{add glossary link}** accrued under paragraph ~~944-40-25-10~~944-40-25-8 shall be the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future **net premiums** (portion of **gross premium** required to provide for all benefits and ~~expenses).~~expenses, excluding **acquisition costs** or costs that are required to be charged to expense as incurred). That liability shall be estimated using methods that include assumptions, such as discount rate~~estimates of expected investment yields~~, **{add glossary link}**mortality**{add glossary link}**, **{add glossary link}**morbidity**{add glossary link}**, **{add glossary link}**terminations**{add glossary link}**, and expenses (see paragraphs 944-40-30-9 and 944-40-30-11 through 30-15)~~, applicable at the time the insurance contracts are made~~. The liability also shall consider other assumptions relating to guaranteed contract benefits, such as coupons, annual endowments, and conversion privileges. The assumptions shall not include a provision for the **risk of adverse deviation**. In determining the level of aggregation at which reserves are calculated, an insurance entity shall not group contracts together from different issue years but shall group contracts into quarterly or annual groups.

944-40-30-7A To the extent the present value of future benefits and expenses exceeds the present value of future gross premiums, an immediate charge shall be recognized in net income (see paragraph 944-40-45-4) such that net premiums are set equal to gross premiums. In no event shall the liability for future policy benefits balance be less than zero for the level of aggregation at which reserves are calculated. Assumptions shall be updated in subsequent accounting periods as described in paragraphs 944-40-35-5 through 35-6A and 944-40-35-7A through 35-7B.

> > **Assumptions**

944-40-30-8 This guidance discusses the following assumptions:

a. ~~Investment yields~~Discount rate
b. Mortality
c. Morbidity
d. Termination
e. Expense.

> > > ~~Investment Yields~~Discount Rate

944-40-30-9 ~~Interest assumptions used in estimating the liability for future policy benefits shall be based on estimates of investment yields (net of related investment expenses) expected at the time insurance contracts are made.~~The liability for future policy benefits shall be discounted using an upper-medium grade (low-credit-risk) fixed-income instrument yield. An insurance entity shall consider reliable information in estimating the upper-medium grade (low-credit-risk) fixed-income instrument yield that reflects the duration characteristics of the liability for future policy benefits (see paragraph 944-40-55-13E). An insurance entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs in determining the discount rate assumption.

944-40-30-10 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The interest assumption for each **block of new insurance contracts** shall be consistent with circumstances, such as actual yields, trends in yields, portfolio mix and maturities, and the entity's general investment experience.~~

> > > Mortality

944-40-30-11 Mortality assumptions used in estimating the liability for future policy benefits shall be based on estimates of expected mortality.

> > > Morbidity

944-40-30-12 Morbidity assumptions used in estimating the liability for future policy benefits shall be based on estimates of expected incidences of disability and **claim** costs.

944-40-30-13 Expected incidences of disability and claim costs for various types of insurance (for example, noncancelable and guaranteed renewable accident and health insurance contracts) and other factors, such as occupational class, waiting period, sex, age, and **benefit period**, shall be considered in making morbidity assumptions. The **risk of antiselection** or adverse selection also shall be considered in making morbidity assumptions.

> > > Termination

944-40-30-14 Termination assumptions used in estimating the liability for future policy benefits shall be based on estimates of expected~~anticipated~~ terminations and **nonforfeiture benefits**, using expected~~anticipated~~ **termination rates** and contractual nonforfeiture benefits. Termination rates may vary by plan of insurance, age at issue, year of issue, frequency of premium payment, and other factors. If composite rates are used, the rates shall be representative of the entity's actual mix of business. Termination assumptions shall be made for long-duration insurance contracts without termination benefits because of the effects of terminations on expected~~anticipated~~ premiums and claim costs.

> > > Expense

944-40-30-15 Expense assumptions used in estimating the liability for future policy benefits shall be based on estimates of expected nonlevel costs, such as termination or settlement costs, and costs after the premium-paying period. Renewal expense assumptions shall consider the possible effect of inflation on those expenses. However, expense assumptions shall not include acquisition costs or any costs that are required to be charged to expense as incurred, such as those relating to investments, general administration, policy **maintenance costs**, product development, market research, and general overhead (see paragraph 944-720-25-2).

> Universal Life-Type Contracts and Nontraditional Contract Benefits

944-40-30-16 The liability for policy benefits for universal life-type contracts shall be equal to the sum of ~~all of~~ the following:

a. The balance that accrues to the benefit of policyholders at the date of the financial statements
b. Any amounts that have been assessed to compensate the insurance entity~~insurer~~ for services to be performed over future periods (see ~~paragraphs 944-605-25-6 through 25-7~~Subtopic 944-605 on insurance—revenue recognition)
c. Any amounts previously assessed against policyholders that are refundable on termination of the contract
d. Any **probable** loss (premium deficiency) as described in paragraphs 944-60-25-7 through 25-9.

944-40-30-17 Amounts that may be assessed against policyholders in future periods, including **surrender charges**, shall not be anticipated in determining the liability for policy benefits.

944-40-30-18 In the absence of a stated account balance or similar explicit or implicit contract value, the cash value, measured at the date of the financial statements, that could be realized by a policyholder upon surrender shall represent the element of liability described in paragraph 944-40-30-16(a).

944-40-30-19 Provisions for risk of adverse deviation shall not be made.

> > Additional Liability~~Universal Life-Type Contracts with Death or Other Insurance Benefit Features~~

944-40-30-19A Paragraph superseded by Accounting Standards Update No. 2018-12.~~See paragraph 944-605-30-1 for guidance for establishing an unearned revenue liability.~~

944-40-30-19B The guidance in paragraphs 944-40-30-19C through 30-24 and 944-40-30-26 through 30-29A addresses contracts or contract features that provide for potential benefits in addition to the account balance that accrues to the benefit of the policyholders.

> > > Market Risk Benefits

944-40-30-19C A **market risk benefit** shall be measured at **fair value**. Total attributed fees used to calculate the fair value of the market risk benefit shall not be negative or exceed total contract fees and assessments collectible from the contract holder.

944-40-30-19D In determining the terms of the market risk benefit, the insurance entity shall consider guidance on determining the terms of an embedded derivative that is required to be accounted for separately under Subtopic 815-15 on embedded derivatives, including the following:

a. Consistent with paragraph 815-15-30-4, if a nonoption valuation approach is used, the terms of the market risk benefit shall be determined in a manner that results in its fair value generally being equal to zero at the inception of the contract.
b. Consistent with paragraph 815-15-30-6, if an option-based valuation approach is used, the terms of the market risk benefit shall not be adjusted to result in the market risk benefit being equal to zero at the inception of the contract.
c. Consistent with paragraph 815-15-25-7, if a contract contains multiple market risk benefits, those market risk benefits shall be bundled together as a single compound market risk benefit.

> > > Death or Other Insurance Benefits

944-40-30-20 The amount of the additional liability recognized under paragraph ~~944-40-25-25A~~944-40-25-27A shall be determined based on the ratio (benefit ratio) of the following:

a. Numerator. The present value of total expected excess payments over the life of the contract, discounted at the **contract rate**.
b. Denominator. The present value of total expected assessments over the life of the contract, discounted at the contract rate.

Total expected assessments are the aggregate of all charges, including those for administration, mortality, expense, and surrender, regardless of how characterized. The contract rate used to compute present value shall be either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining benefit period. The approach selected to compute the present value of revised estimates shall be applied consistently in subsequent revisions to computations of the benefit ratio.

944-40-30-21 The benefit ratio as determined in the preceding paragraph may exceed 100 percent, resulting in a liability that exceeds cumulative assessments.

944-40-30-22 For contracts in which the assets are reported in the **general account**~~ and that include investment margin in their estimated gross profits~~, the investment margin (that is, the amounts expected to be earned from the investment of policyholder balances less amounts credited to policyholder balances [see paragraph 944-40-25-14]) shall be included with any other assessments for purposes of determining total expected assessments that are referenced in paragraph 944-40-30-20.

944-40-30-22A An increase during a period in an unearned revenue liability (that is, deferral of revenue) established in paragraphs 944-605-25-6 through 25-7 shall be excluded from the amounts assessed against the contract holder's account balance for that period and a decrease in (that is, amortization of) an unearned revenue liability in accordance with paragraph 944-605-35-2 during a period shall be included with the assessments for that period. **[Content amended as shown and moved from paragraph 944-605-25-11]**

944-40-30-23 The insurance entity shall calculate the present value of total expected excess payments and total assessments and investment margins, as applicable, based on expected experience.

944-40-30-24 Expected experience shall be based on a range of scenarios that considers the volatility inherent in the assumptions rather than a single set of best estimate assumptions.

944-40-30-25 Paragraph superseded by Accounting Standards Update No. 2018-12.~~In calculating the additional liability for the insurance benefit feature, assumptions used, such as the interest rate, discount rate, **lapse rate**, and mortality, shall be consistent with assumptions used in estimating gross profits for purposes of amortizing capitalized **acquisition costs**.~~

> > > ~~**> > Universal Life-Type Contracts with**~~ **Annuitization Benefits**

944-40-30-26 The additional liability required under paragraph 944-40-25-27 shall be measured initially based on the benefit ratio determined by the following numerator and denominator:

a. Numerator. The present value of expected **{add glossary link}**annuitization**{add glossary link}** payments to be made and related incremental **claim adjustment expenses**, discounted at an upper-medium grade (low-credit-risk) fixed-income instrument yield applicable to~~estimated investment yields expected to be earned during~~ the **payout phase** of the contract, minus the expected accrued account balance at the expected annuitization date (the excess payments). The excess of the present value payments to be made during the payout phase of the contract over the expected accrued account balance at the expected annuitization date shall be discounted at the contract rate.

b. Denominator. The present value of total expected assessments during the **accumulation phase** of the contract, discounted at the contract rate.

Total expected assessments are the aggregate of all charges, including those for administration, mortality, expense, and surrender, regardless of how characterized.

944-40-30-27 For contracts whose assets are reported in the general account ~~and that include investment margin in their estimated gross profits~~, the investment margin (that is, the amounts expected to be earned from the investment of policyholder balances less amounts credited to policyholder balances [see paragraph 944-40-25-14]) shall be included with any other assessments for purposes of determining total expected assessments that are referenced in paragraph 944-40-30-26.

944-40-30-28 The insurance entity shall calculate the present value of total expected excess payments and total assessments and investment margins, as applicable, based on expected experience. Expected experience shall be based on a range of scenarios that considers the volatility inherent in the assumptions rather than a single set of best estimate assumptions. When determining expected excess payments, the expected annuitization rate is one of the assumptions that needs to be estimated.

944-40-30-29 In calculating the additional liability for the additional benefit feature, ~~assumptions used, such as the interest rate, discount rate, lapse rate, and mortality, shall be consistent with assumptions used in estimating gross profits for purposes of amortizing capitalized acquisition costs under the Long-Duration Contracts Subsection of Section 944-30-35~~the contract rate used to compute present value shall be either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining benefit period. The approach selected to compute the present value of revised estimates shall be applied consistently in subsequent revisions to computations of the benefit ratio.

> > > Insurance Benefit Feature That Wraps a Noninsurance Contract

944-40-30-29A A **reinsurer** or issuer of the insurance benefit features of a contract shall calculate a liability for the portion of premiums collected each period that represents compensation to the insurance entity for benefits that are assessed in a manner that is expected to result in current profits and future losses from the insurance benefit function. That liability shall be calculated using the methodology described in paragraphs 944-40-30-19B through 30-24 and 944-40-30-26 through 30-29.

> Certain Participating Life Insurance Contracts—Net Level Premium Reserve

944-40-30-30 The **net level premium reserve** shall be calculated based on the **dividend fund interest rate**, if determinable, and mortality rates guaranteed in calculating the **{add glossary link}**cash surrender values**{add glossary link}** described in the contract. If the dividend fund interest rate is not determinable, the **guaranteed interest rate** used in calculating cash surrender values described in the contract shall be used. If the dividend fund interest rate is not determinable and there is no guaranteed interest rate, the interest rate used in determining guaranteed nonforfeiture values shall be used. Finally, if none of the above rates exists, then the interest rate used to determine minimum cash surrender values—as set by the National Association of Insurance Commissioners' model standard nonforfeiture law—for the year of issue of the contract should be used. Regardless of the rate used, net premiums shall be calculated as a constant percentage of the gross premiums.

12. Amend paragraphs 944-40-35-5 through 35-6 and their related heading, the heading preceding paragraph 944-40-35-8, 944-40-35-9 and its related heading, 944-40-35-12 and its related heading, 944-40-35-15 through 35-16, the heading preceding paragraph 944-40-35-17, 944-40-35-18, and 944-40-35-20 through 35-23 and the related heading, add paragraphs 944-40-35-6A, 944-40-35-7A through 35-7B, and 944-40-35-8A through 35-8B and their related headings, and supersede paragraphs 944-40-35-7 through 35-8, 944-40-35-11, and 944-40-35-24, with a link to transition paragraph 944-40-65-2, as follows:

Subsequent Measurement

Long-Duration Contracts

> Traditional and Limited-Payment Long-Duration Contracts

944-40-35-5 ~~Original assumptions shall continue to be used~~Assumptions shall be updated in subsequent accounting periods as follows to determine changes in the **liability for future policy benefits**:~~**liability for future policy benefits** (often referred to as the **lock-in concept**) unless a premium deficiency exists subject to paragraphs 944-60-25-7 through 25-9.~~

- a. Cash flow assumptions (that is, the assumptions used to derive estimated cash flows, including the **mortality**, **morbidity**, **termination**, and expense assumptions referenced in paragraphs 944-40-30-11 through 30-15) shall be reviewed—and if there is a change, updated—on an annual basis, at the same time every year.
  1. Cash flow assumptions shall be updated in interim reporting periods if evidence suggests that cash flow assumptions should be revised.
  2. An insurance entity may make an entity-wide election not to update the expense assumption referenced in paragraph 944-40-30-15.

b. The discount rate assumption referenced in paragraph 944-40-30-9 shall be updated for annual and interim reporting periods, as of the reporting date.

944-40-35-6 Actual experience shall be recognized in the period in which that experience arises. The liability for future policy benefits shall then be updated for actual experience at least on an annual basis as described in paragraph 944-40-35-5(a) (and for limited-payment contracts, see paragraph 944-605-35-1B for guidance on updating any corresponding deferred profit liability). An insurance entity need not update the liability for future policy benefits for actual experience more often than on an annual basis, unless cash flow assumptions are updated as described in paragraph 944-40-35-5(a)(1).~~Changes in the liability for future policy benefits that result from its periodic estimation for financial reporting purposes shall be recognized in income in the period in which the changes occur.~~

944-40-35-6A A related charge or credit to net income (see paragraph 944-40-45-4) or other comprehensive income as a result of updating assumptions at the level of aggregation at which reserves are calculated (that is, for a group of contracts) shall be determined as follows:

a. Cash flow assumptions. **Net premiums** shall be updated for cash flow changes. An insurance entity shall update its estimate of cash flows expected over the entire life of a group of contracts using actual historical experience and updated future cash flow assumptions. An insurance entity shall recalculate net premiums by comparing the present value of actual historical benefits and related actual (if applicable) historical expenses plus updated remaining expected benefits and related expenses, less the liability carryover basis (if applicable), with the present value of actual historical gross premiums plus the updated remaining expected gross premiums (see Examples 6 and 7 in paragraphs 944-40-55-29H through 55-29U). The revised ratio of net premiums to gross premiums shall not exceed 100 percent (see paragraph 944-40-35-7A).
   1. Liability remeasurement gain or loss. The revised net premiums shall be used to derive an updated liability for future policy benefits as of the beginning of the current reporting period, discounted at the original (that is, contract issuance) discount rate. The updated liability for future policy benefits as of the beginning of the current reporting period shall then be compared with the carrying amount of the liability as of that date (that is, before the updating of cash flow assumptions) to determine the current period change in liability estimate (that is, the liability remeasurement gain or loss) to be recognized in net income for the current reporting period (see paragraph 944-40-45-4 for presentation requirements).
   2. Current-period benefit expense. The revised net premiums shall be applied as of the beginning of the current reporting period to derive the benefit expense for the current reporting period (see paragraph 944-40-45-4 for presentation requirements).

3. Subsequent periods. In subsequent periods, the revised net premiums shall be used to measure the liability for future policy benefits, subject to future revisions.

b. Discount rate assumptions. Net premiums shall not be updated for discount rate assumption changes.
   1. The difference between the updated carrying amount of the liability for future policy benefits (that is, the present value of future benefits and expenses less the present value of future net premiums based on updated cash flow assumptions) measured using the updated discount rate assumption and the original discount rate assumption shall be recognized directly to other comprehensive income (that is, on an immediate basis).
   2. The interest accretion rate shall remain the original discount rate used at contract issue date.

944-40-35-7 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Paragraph 944-40-35-1 provides guidance on determining the liability for future policy benefits using revised assumptions in the event of a premium deficiency.~~

944-40-35-7A If the updating of cash flow assumptions results in the present value of future benefits and expenses exceeding the present value of future gross premiums, an insurance entity shall:

a. Set net premiums equal to gross premiums
b. Increase the liability for future policy benefits
c. Recognize a corresponding charge to net income for the current reporting period (see paragraph 944-40-45-4) such that net premiums are set equal to gross premiums.

In subsequent periods (that is, until assumptions are subsequently updated), the liability for future policy benefits shall be accrued with net premiums set equal to gross premiums.

944-40-35-7B In no event shall the liability for future policy benefits balance be less than zero at the level of aggregation at which reserves are calculated.

> Universal Life-Type Contracts and Nontraditional Contract Benefits

944-40-35-8 Paragraph superseded by Accounting Standards Update No. 2018-12.~~This guidance addresses universal life-type contracts with the following attributes:~~

~~a. Contracts with death or other insurance benefit features~~
~~b. Contracts with annuitization benefits.~~

> > Additional Liability

> > > Market Risk Benefits

944-40-35-8A A **market risk benefit** may be positive (that is, an asset) or negative (that is, a liability). Changes in **fair value** related to market risk benefits shall be recognized in net income, with the exception of fair value changes attributable to a change in the instrument-specific credit risk of market risk benefits in a liability position. The portion of a fair value change attributable to a change in the instrument-specific credit risk of market risk benefits in a liability position shall be recognized in other comprehensive income (see paragraph 944-40-45-3).

944-40-35-8B Upon derecognition of a market risk benefit, an insurance entity shall derecognize any related amount included in accumulated other comprehensive income. An insurance entity only shall include in net income any gain or loss that is realized as a result of the insurance entity's nonperformance (that is, the settlement or extinguishment of an obligation for an amount less than the contractual obligation amount). On the date of **annuitization** (for annuitization benefits) or upon extinguishment of the account balance (for withdrawal benefits) the balance related to the market risk benefit shall be derecognized, and the amount deducted (after derecognition of any related amount included in accumulated other comprehensive income) shall be used in the calculation of the liability for future policy benefits for the payout annuity (including the establishment of a deferred profit liability to the extent that the market risk benefit amount deducted exceeds the amount of the liability for future policy benefits or the recognition of an immediate loss to the extent that the amount of the liability for future policy benefits exceeds the market risk benefit amount deducted).

> > >~~> > Contracts with~~ Death or Other Insurance Benefits~~Benefit Features~~

944-40-35-9 An insurance entity shall regularly evaluate estimates used and adjust the additional liability balance, with a related charge or credit to benefit expense (see paragraph 944-40-45-1), if actual experience or other evidence suggests that earlier assumptions should be revised. In making such revised estimates, both the present value of total excess payments and the present value of total expected assessments and investment margins shall be calculated as of the balance sheet date using historical experience from the issue date to the balance sheet date and estimated experience thereafter.

944-40-35-10 The additional liability at the balance sheet date shall be equal to:

a. The current benefit ratio multiplied by the cumulative assessments (cumulative assessments shall be calculated as actual cumulative assessments, including investment margins, if applicable, recorded from contract inception through the balance sheet date)
b. Less the cumulative excess payments (including amounts reflected in claims payable liabilities)
c. Plus accreted interest.

However, in no event shall the additional liability balance be less than zero.

944-40-35-11 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Paragraph 944-40-45-1 states that the change in the additional liability shall be recognized as a component of benefit expense in the statement of operations.~~

> > > ~~> > Contracts with~~ Annuitization Benefits

944-40-35-12 The insurance entity shall regularly evaluate estimates used and adjust the additional liability balance recognized under paragraph 944-40-25-27 with a related charge or credit to benefit expense (see paragraph 944-40-45-2), if actual experience or other evidence suggests that earlier assumptions should be revised.

944-40-35-13 In making such revised estimates, both the present value of total excess payments and the present value of total expected assessments or investment margins shall be calculated as of the balance sheet date using historical experience from the issue date to the balance sheet date and estimated experience thereafter.

944-40-35-14 The additional liability at the balance sheet date shall be equal to the sum of the following:

a. The current benefit ratio multiplied by the cumulative assessments
b. Accreted interest (an addition)
c. At time of annuitization, the cumulative excess payments determined at annuitization (a deduction).

However, in no event shall the additional liability balance be less than zero.

944-40-35-15 The cumulative excess payments determined at annuitization in ~~(c) in the preceding~~ paragraph 944-40-35-14(c) is the amount that shall be deducted at the actual date of annuitization. That amount shall be calculated as the present value of expected annuity payments and related **claim adjustment expenses** discounted at an upper-medium grade (low-credit-risk) fixed-income instrument yield~~expected investment yields~~ minus the accrued account balance at the actual annuitization date.

944-40-35-16 On the date of annuitization or extinguishment of the account balance, the additional liability related to the cumulative excess benefits will be ~~zero~~derecognized and the amount deducted will be used in the calculation of the liability for the payout annuity.

> > > ~~> >~~ Insurance Benefit Feature That Wraps a Noninsurance Contract

944-40-35-17 A **reinsurer** or issuer of the insurance benefit features of a contract shall calculate a liability for the portion of premiums collected each period that represents compensation to the insurance entity for benefits that are assessed in a manner that is expected to result in current profits and future losses from the insurance benefit function.

944-40-35-18 That liability shall be calculated using the methodology described in paragraphs 944-40-35-8A~~944-40-35-9~~ through 35-10 and 944-40-35-12 through 35-16~~35-11. For example, a **reinsurance** contract that assumes only the risk related to the **minimum guaranteed death benefit** feature for a fee that varies with the account balance rather than with the insurance **coverage** provided is a universal life-type contract that shall be accounted for in accordance with those paragraphs~~.

> > Two-Tier Annuity

944-40-35-19 The accrued account balance for a **two-tier annuity** during the **accumulation phase** shall be calculated using the lower-tier rate because the account balance accumulated at the lower tier is the amount that would be available in cash at maturity if the contract holder elects not to annuitize the contract.

944-40-35-20 An additional liability ~~determined~~recognized in accordance with paragraphs 944-40-25-26 through 25-27 or a market risk benefit, as applicable, shall be recognized during the accumulation phase for the ~~annuitization~~ benefit in excess of the accrued account balance.

944-40-35-21 If there is an additional liability for the annuitization benefit and a contract holder elects to annuitize, the present value of annuitization payments, including related incremental claims adjustment expenses, discounted using an upper-medium grade (low-credit-risk) fixed-income instrument yield~~at expected investment yields~~ would represent the single premium used to purchase the annuitization benefit.

> Certain Participating Life Insurance Contracts—~~Terminal Dividends~~

944-40-35-22 Terminal dividends accrued under paragraph 944-40-25-30 shall be recognized as an expense over the life of a book of participating life insurance contracts, at a constant rate based on the present value of the base used for the amortization of deferred **acquisition costs**~~estimated gross margin amounts expected to be realized over the life of the book of contracts~~.

944-40-35-23 The present value of the amortization base~~estimated gross margins~~ shall be computed using the expected **investment yield** (net of related investment expenses). Accordingly, interest shall accrue on the balance of terminal dividends.

944-40-35-24 Paragraph superseded by Accounting Standards Update No. 2018-12.~~If significant negative gross margins are expected in any period, then the present value of gross margins before annual dividends, estimated gross premiums, or the balance of insurance **in force** shall be substituted as the base for computing the expense amount to be recognized. The base substituted in this calculation shall be the same one substituted in the amortization of deferred **acquisition costs** discussed in paragraph 944-30-35-11.~~

944-40-35-25 Increases in the liability for future policy benefits shall be reported as an expense in the statement of earnings.

13. Amend paragraphs 944-40-45-1 through 45-2 and their related headings, 944-40-50-6 through 50-7 and their related heading, 944-40-55-14 through 55-17 and their related heading, 944-40-55-20 through 55-23, and 944-40-55-25 through 55-28, add paragraphs 944-40-45-3 through 45-4 and their related headings, 944-40-50-5A, 944-40-50-7A through 50-7C and their related headings, 944-40-55-13A through 55-13K and their related headings, and 944-40-55-29A through 55-29U and their related headings, and supersede paragraphs 944-40-55-18, 944-40-55-24, and 944-40-55-29, with a link to transition paragraph 944-40-65-2, as follows:

Other Presentation Matters

Long-Duration Contracts

> Universal Life-Type Contracts and Nontraditional Contract Benefits

> > ~~Contracts with~~ Death or Other Insurance Benefits~~Benefit Features~~

944-40-45-1 The~~A~~ change in the estimate of the additional liability for death or other insurance benefits recognized under the guidance in paragraph 944-40-25-27A as of the beginning of the current period (that is, the liability remeasurement gain or loss as a result of applying the revised benefit ratio) shall be presented~~recognized~~ as a separate component of total benefit expense in the statement of ~~operations.~~operations, either parenthetically or as a separate line item. The liability remeasurement gain or loss may be reported together with the liability remeasurement gain or loss related to **annuitization** benefits and traditional and **limited-payment contracts**.

> > ~~Contracts That Provide~~ Annuitization Benefits

944-40-45-2 The change in the estimate of the additional liability for annuitization benefits recognized under ~~paragraphs 944-40-25-22 through 25-24~~the guidance in paragraph 944-40-25-27 as of the beginning of the current period (that is, the liability remeasurement gain or loss as a result of applying the revised benefit ratio) shall be presented~~reported~~ as a separate component of total benefit expense in the statement of ~~operations.~~operations, either parenthetically or as a separate line item. The liability remeasurement gain or loss may be reported together with the liability remeasurement gain or loss related to death or other insurance benefits and traditional and limited-payment contracts.

> > Market Risk Benefits

944-40-45-3 The carrying amount of **market risk benefits** shall be presented separately in the statement of financial position. The change in **fair value** related to market risk benefits shall be presented separately in net income, except fair value changes attributable to a change in the instrument-specific credit risk of market risk benefits in a liability position. The portion of a fair value change attributable to a change in the instrument-specific credit risk of market risk benefits in a liability position shall be presented separately in other comprehensive income.

> Traditional and Limited-Payment Contracts

944-40-45-4 The current-period change in estimate of the liability for future policy benefits (that is, the liability remeasurement gain or loss) calculated under paragraph 944-40-35-6A(a)(1) shall be presented as a separate component of total benefit expense in the statement of operations, either parenthetically or as a separate line item. For limited-payment contracts, the corresponding current-period change in estimate of the deferred profit liability (that is, the liability remeasurement gain or loss) calculated under paragraph 944-605-35-1C shall be presented separately in net income, either parenthetically or as a separate line item. The liability remeasurement gain or loss for traditional and limited-payment contracts may be reported together with the liability remeasurement gain or loss related to annuitization benefits and death or other insurance benefits.

Disclosure

Long-Duration Contracts

944-40-50-5A An insurance entity shall disclose the information required by paragraphs 944-40-50-6 through 50-7C in a manner that allows users to understand the amount, timing, and uncertainty of future cash flows arising from the liabilities. An insurance entity shall aggregate or disaggregate the disclosures in paragraphs 944-40-50-6 through 50-7C so that useful information is not obscured by the inclusion of a large amount of insignificant detail or by the aggregation of items that have significantly different characteristics (see paragraphs 944-40-55-13F through 55-13H). An insurance entity need not provide disclosures about liabilities for insignificant categories; however, balances for insignificant categories shall be included in the reconciliations.

> ~~Traditional Long-Duration Contracts~~Liability for Future Policy Benefits and Additional Liability for Annuitization, Death, or Other Insurance Benefits

944-40-50-6 ~~Insurance entities shall disclose in their financial statements the methods and assumptions used in estimating the~~ ~~**liability for future policy benefits**.~~For annual and interim reporting periods, an insurance entity shall disclose the following information about the **liability for future policy benefits** for traditional and limited-payment contracts described in paragraph 944-40-25-11 and the additional liability for annuitization, death, or other insurance benefits described in paragraphs 944-40-25-26 through 25-27A, as applicable to each of those liabilities:

a. A year-to-date disaggregated tabular rollforward of the beginning balance to the ending balance (see paragraph 944-40-55-13I). Amounts shall be presented gross of any related **reinsurance recoverable**. For the liability for future policy benefits for traditional and limited-payment contracts, the insurance entity shall present expected future **net premiums** separate from expected future benefits.
b. For each disaggregated rollforward presented, either as a component of the rollforward or as accompanying information:
    1. For traditional and limited-payment contracts, the undiscounted and discounted ending balance of expected future **gross premiums** and expected future benefits and expenses
    2. Actual experience during the period for mortality, morbidity, and lapses, compared with what was expected for the period
    3. The amount of revenue and interest recognized in the statement of operations
    4. The amount of any related reinsurance recoverable
    5. The weighted-average duration of the liability
    6. The weighted-average interest rate, a description of the technique(s) used to determine the interest rate assumption, and information about any adjustments to observable market information.
c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount of the liability for future policy benefits and the additional liability in the statement of financial position and the total revenue and interest recognized in the statement of operations.
d. For traditional and limited-payment contracts, qualitative and quantitative information about adverse development that resulted in an immediate charge to current-period net income because of net premiums exceeding gross premiums.

944-40-50-7 ~~Insurance entities are encouraged to disclose the average rate of assumed investment yields in effect for the current year.~~For annual reporting periods, and to the extent required by Topic 270 on interim reporting, an insurance entity shall disclose information about:

a. The significant inputs, judgments, assumptions, and methods used in measuring the liability for future policy benefits and the additional liability
b. Changes in those significant inputs, judgments, and assumptions during the period, and the effect of those changes on the measurement of the liability.

> Liability for Policyholders' Account Balances

944-40-50-7A For annual and interim reporting periods, an insurance entity shall disclose the following information about the liability for policyholders' account balances described in paragraph 944-40-25-14 (excluding separate accounts described in paragraph 944-80-25-2):

a. A year-to-date disaggregated tabular rollforward of the beginning balance to the ending balance (see paragraph 944-40-55-13J).
b. For each disaggregated rollforward:
   1. The weighted-average crediting rate
   2. The guaranteed benefit amounts in excess of the current account balances
   3. **Cash surrender value**.
c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount of the liability for policyholders' account balances in the statement of financial position.
d. A tabular presentation of policyholders' account balances by range of guaranteed minimum crediting rates and the related range of the difference between rates being credited to policyholders and the respective guaranteed minimums.

> Market Risk Benefits

944-40-50-7B For annual and interim reporting periods, an insurance entity shall disclose the following information about **market risk benefits**:

a. A year-to-date disaggregated tabular rollforward of the beginning balance to the ending balance (see paragraph 944-40-55-13K)
b. For each disaggregated rollforward, the guaranteed benefit amounts in excess of the current account balances (for example, the **net amount at risk**) and weighted-average attained age of contract holders
c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount in the statement of financial position, disaggregated between market risk benefits that are in an asset position and those that are in a liability position.

944-40-50-7C For annual reporting periods, and to the extent required by Topic 270 on interim reporting, an insurance entity shall disclose information about:

a. The significant inputs, judgments, assumptions, and methods used in measurement
b. Changes in those significant inputs, judgments, and assumptions during the period and the effect of those changes on the measurement of market risk benefits.

Implementation Guidance and Illustrations

Long-Duration Contracts

> Implementation Guidance

> > Liability for Future Policy Benefits

> > > Cash Flow Assumption Updating

944-40-55-13A Paragraphs 944-40-35-5 through 35-6A and 944-40-35-7A through 35-7B require an insurance entity to review—and if there is a change, update—cash flow assumptions used in estimating the **liability for future policy benefits** at the level of aggregation at which reserves are calculated. Example 6 (beginning in paragraph 944-40-55-29H) illustrates the calculation of the liability, including subsequent changes in the estimate of the liability.

944-40-55-13B If the adjustment related to updating cash flow assumptions is an unfavorable adjustment because of expected **net premiums** exceeding expected **gross premiums** (that is, expected benefits and related expenses exceed expected gross premiums), the insurance entity should:

a. Set net premiums equal to gross premiums
b. Increase the estimate of the liability for future policy benefits as of the beginning of the current reporting period
c. Recognize a corresponding adjustment to net income for the current reporting period (see paragraph 944-40-45-4)
d. Disclose qualitative and quantitative information related to adverse development (see paragraph 944-40-50-6(d))
e. Accrue the liability for future policy benefits with net premiums being set equal to gross premiums (that is, a ratio of net premiums to gross premiums equal to 100 percent) until assumptions are subsequently updated.

944-40-55-13C If the adjustment related to updating cash flow assumptions is an unfavorable adjustment but does not result in net premiums exceeding gross premiums, then the insurance entity should:

a. Increase the estimate of the liability for future policy benefits as of the beginning of the current reporting period
b. Recognize a corresponding change in estimate adjustment to net income for the current reporting period (see paragraph 944-40-45-4)
c. Accrue the liability for future policy benefits with the revised ratio of net premiums to gross premiums until assumptions are subsequently updated.

944-40-55-13D If the adjustment related to updating cash flow assumptions is a favorable adjustment—including the reversal of previously recognized unfavorable adjustment described in paragraph 944-40-55-13B or 944-40-55-13C—the insurance entity should:

a. Decrease the estimate of the liability for future policy benefits as of the beginning of the current reporting period
b. Recognize a corresponding change in estimate adjustment to net income for the current reporting period (see paragraph 944-40-45-4)

c. Accrue the liability for future policy benefits with the revised ratio of net premiums to gross premiums until assumptions are subsequently updated.

> > > Discount Rate

944-40-55-13E An insurance entity should maximize the use of current observable market prices of upper-medium-grade (low-credit-risk) fixed-income instruments with durations similar to the liability for future policy benefits.

a. An insurance entity should not substitute its own estimates for observable market data unless the market data reflect transactions that are not orderly (see paragraphs 820-10-35-54I through 35-54J for additional guidance on determining whether transactions are not orderly).
b. In determining points on the yield curve for which there are limited or no observable market data for upper-medium-grade (low-credit-risk) fixed-income instruments, an insurance entity should use an estimate that is consistent with existing guidance on **fair value** measurement in Topic 820, particularly for Level 3 fair value measurement.

> > Disclosures

944-40-55-13F To allow financial statement users to understand the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities, paragraph 944-40-50-5A requires that an insurance entity aggregate or disaggregate certain disclosures so that useful information is not obscured by the inclusion of a large amount of insignificant detail or by the aggregation of items that have significantly different characteristics. Consequently, the extent to which an insurance entity's information is aggregated or disaggregated for the purpose of those disclosures depends on the facts and circumstances that pertain to the characteristics of the liability for future policy benefits, the additional liability, the liability for policyholders' account balances, **separate account** liabilities, **market risk benefits**, or deferred **acquisition costs** (and balances amortized on a basis consistent with deferred acquisition costs).

944-40-55-13G In addition, when selecting the type of category to use to aggregate or disaggregate disclosures, an insurance entity should consider how information about the disclosed items has been presented for other purposes, including the following:

a. Disclosures presented outside the financial statements (for example, in statutory filings)
b. Information regularly viewed by the chief operating decision maker for evaluating financial performance
c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the insurance entity or users of the insurance

entity's financial statements to evaluate the insurance entity's financial performance or make resource allocation decisions.

944-40-55-13H Examples of categories that might be appropriate to consider to aggregate or disaggregate disclosures include the following:

a. Type of coverage (for example, major product line)
b. Geography (for example, country or region)
c. Market or type of customer (for example, individual or group lines of business).

When applying the guidance in paragraphs 944-30-50-2A through 50-2B, 944-40-50-6 through 50-7C, and 944-80-50-1 through 50-2, an insurance entity should not aggregate amounts from different reportable segments according to Topic 280, if applicable.

944-40-55-13I The tabular rollforward of the beginning to the ending balance related to the liability for future policy benefits or the additional liability as required in paragraph 944-40-50-6 could include the following line items:

a. Issuances
b. Interest accrual
c. Net premiums or assessments collected
d. Benefit payments
e. Derecognition (lapses or withdrawals)
f. Effect of actual variances from expected experience
g. Effect of changes in cash flow assumptions
h. Effect of changes in discount rate assumptions.

944-40-55-13J The tabular rollforward of the beginning to the ending balance related to the liability for policyholders' account balances as required in paragraph 944-40-50-7A could include the following line items:

a. Issuances
b. Premiums received
c. Policy charges
d. Surrenders and withdrawals
e. Benefit payments
f. Transfers from or to separate accounts
g. Interest credited.

944-40-55-13K The tabular rollforward of the beginning to the ending balance related to market risk benefits as required in paragraph 944-40-50-7B could include the following line items:

a. Issuances
b. Interest accrual
c. Attributed fees collected
d. Benefit payments

e. Effect of changes in interest rates
f. Effect of changes in equity markets
g. Effect of changes in equity index volatility
h. Actual policyholder behavior different from expected behavior
i. Effect of changes in future expected policyholder behavior
j. Effect of changes in other future expected assumptions
k. Effect of changes in the instrument-specific credit risk.

To the extent that the tabular rollforward of the beginning to the ending balance related to market risk benefits achieves the fair value disclosure requirements described in Section 820-10-50, an insurance entity need not duplicate the related fair value disclosure.

> Illustrations

> > Example 1: Calculation of an Additional Liability Related to Universal Life-Type Contracts with Death or Other Insurance Benefits~~Minimum Guaranteed Death Benefit Liability~~

944-40-55-14 This Example illustrates how to calculate an additional liability for ~~a portfolio of variable annuity~~universal life-type contracts ~~with a **minimum guaranteed death benefit**~~ as discussed in ~~paragraphs 944-40-35-9 through 35-10~~paragraph 944-40-25-27A (for example, a variable universal life insurance contract no-lapse guarantee that would meet the condition in paragraph 944-40-25-25D(b) and not be accounted for as a market risk benefit). This Example assumes that the guidance in paragraphs 944-20-15-20 through 15-25 has been followed, with the conclusion that the **mortality** and **morbidity** risk associated with insurance benefit features is other than nominal.

944-40-55-15 This Example assumes ~~all of~~ the following for the contracts discussed:

a. The ~~variable annuity~~ contracts have no front-end loads.
b. The mortality assessments include any explicit assessments for enhanced death benefit feature.
c. The **surrender charges** are calculated based on a percentage of premiums.
d. The expense assessments are a fixed annual charge.
e. The discount rate is~~of~~ 8 percent ~~is the same rate as used for deferred acquisition cost amortization~~.
f. The contracts do not include market risk benefits.

944-40-55-16 Paragraphs 944-40-55-25 through 55-28~~55-29~~ contain the same basic assumptions as paragraph 944-40-55-20, but with the effect on the components of the additional liability~~unadjusted gross profits~~ of a 10 percent increase in account balances (not shown in schedules) in Year 2.

944-40-55-17 This Example illustrates computations involved in ~~all of~~ the following:

a. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Gross profits~~
b. Benefit ratio
c. Additional ~~minimum guaranteed death benefit~~ liability
d. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Adjusted gross profits that should be used for the amortization of deferred **acquisition costs**.~~

944-40-55-18 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The estimated gross profits used for the amortization of deferred acquisition costs should be adjusted to reflect the incidence of assessments and loss expense as a result of the recognition of the liability (see paragraph 944-30-35-9).~~

944-40-55-19 Columns in the computations that follow do not cross-foot due to rounding.

944-40-55-20 Computation of components of the additional liability~~The computation of unadjusted gross profits~~ follows.

[For ease of readability, the new illustration is not underlined.]

Year	Expense Assessments	+	Mortality Assessments	+	Surrender Charges	=	Total Assessments [(a)]	Excess Payments
1	$ 30.00		$ 820.50		$ 17.50		$ 868.00	$ -
2	29.75		871.65		44.62		946.02	12.20
3	29.48		919.29		61.42		1,010.19	20.61
4	29.20		969.80		68.12		1,067.12	25.94
5	28.89		1,034.77		64.99		1,128.65	31.58
6	28.55		1,086.61		95.16		1,210.32	44.05
7	28.18		1,143.53		58.71		1,230.42	49.53
8	27.78		1,086.61		-		1,114.39	52.00
9	27.34		1,268.91		-		1,296.25	65.93
10	26.87		1,333.10		-		1,359.97	76.78
11	26.35		1,382.93		-		1,409.28	93.75
12	25.79		1,433.09		-		1,458.88	104.76
13	25.18		1,487.10		-		1,512.28	120.67
14	24.52		1,539.66		-		1,564.18	142.22
15	23.81		1,597.88		-		1,621.69	151.25
16	23.06		1,662.23		-		1,685.29	153.64
17	22.25		1,691.70		-		1,713.95	210.92
18	21.39		1,723.70		-		1,745.09	236.72
19	20.48		1,751.22		-		1,771.70	270.72
20	19.52		1,788.11		-		1,807.63	270.82
Present Value							$ 12,304.07	$ 724.88

(a) If the product had investment margins, they would be included in the schedule in an additional column.

~~Year~~	~~Expense Assessments~~	~~+~~	~~Mortality Assessments~~	~~+~~	~~Surrender Charges~~	~~=~~	~~Total Revenue~~ [(a)]	~~–~~	~~Recurring Expenses Incurred~~	~~–~~	~~Excess Death Benefits Paid~~	~~=~~	~~Unadjusted Gross Profits~~
~~1~~	~~$ 30.00~~		~~$ 820.50~~		~~$ 17.50~~		~~$ 868.00~~		~~$ 25.00~~		~~$ –~~		~~$ 843.00~~
~~2~~	~~29.75~~		~~871.65~~		~~44.62~~		~~946.02~~		~~170.27~~		~~12.20~~		~~763.55~~
~~3~~	~~29.48~~		~~919.29~~		~~61.42~~		~~1,010.20~~		~~177.78~~		~~20.61~~		~~811.80~~
~~4~~	~~29.20~~		~~969.80~~		~~68.12~~		~~1,067.12~~		~~185.96~~		~~25.94~~		~~855.22~~
~~5~~	~~28.89~~		~~1,034.77~~		~~64.99~~		~~1,128.65~~		~~196.53~~		~~31.58~~		~~900.54~~
~~6~~	~~28.55~~		~~1,086.61~~		~~95.16~~		~~1,210.32~~		~~204.89~~		~~44.05~~		~~961.38~~
~~7~~	~~28.18~~		~~1,143.53~~		~~58.71~~		~~1,230.42~~		~~214.07~~		~~49.53~~		~~966.82~~
~~8~~	~~27.78~~		~~1,086.61~~		~~-~~		~~1,114.39~~		~~224.32~~		~~52.00~~		~~838.07~~
~~9~~	~~27.34~~		~~1,268.91~~				~~1,296.25~~		~~234.27~~		~~65.93~~		~~996.05~~
~~10~~	~~26.87~~		~~1,333.10~~				~~1,359.97~~		~~244.57~~		~~76.78~~		~~1,038.61~~
~~11~~	~~26.35~~		~~1,382.93~~				~~1,409.28~~		~~252.45~~		~~93.75~~		~~1,063.08~~
~~12~~	~~25.79~~		~~1,433.09~~				~~1,458.87~~		~~243.67~~		~~104.76~~		~~1,110.44~~
~~13~~	~~25.18~~		~~1,487.10~~				~~1,512.27~~		~~268.83~~		~~120.67~~		~~1,122.78~~
~~14~~	~~24.52~~		~~1,539.66~~				~~1,564.18~~		~~278.10~~		~~142.22~~		~~1,143.86~~
~~15~~	~~23.81~~		~~1,597.88~~				~~1,621.69~~		~~286.16~~		~~151.25~~		~~1,184.28~~
~~16~~	~~23.06~~		~~1,662.23~~				~~1,685.28~~		~~296.25~~		~~153.64~~		~~1,235.39~~
~~17~~	~~22.25~~		~~1,691.70~~				~~1,713.95~~		~~300.49~~		~~210.92~~		~~1,202.54~~
~~18~~	~~21.39~~		~~1,723.70~~				~~1,745.09~~		~~305.11~~		~~236.72~~		~~1,203.27~~
~~19~~	~~20.48~~		~~1,751.22~~				~~1,771.70~~		~~308.93~~		~~270.72~~		~~1,192.05~~
~~20~~	~~19.52~~		~~1,788.11~~				~~1,807.63~~		~~314.28~~		~~270.82~~		~~1,222.52~~
~~Present Value~~							~~12,304.07~~				~~724.88~~		~~9,520.96~~

~~(a) If the product had investment margins, they would be included in the schedule as an additional column.~~

944-40-55-21 Computation of the benefit ratio follows.

[For ease of readability, the new illustration is not underlined.]

Present value of total expected excess payments over the life of the contract	$ 724.88
Divided by present value of total expected assessments over the life of the contract	12,304.07
Equals benefit ratio	5.8914%

~~Present value of excess death benefits paid~~	~~$ 724.88~~
~~Divided by present value of total revenue~~	~~12,304.07~~
~~Equals benefit ratio~~	~~5.8914%~~

944-40-55-22 Computation of the Year 1 additional liability~~minimum guaranteed death benefit~~ follows.

[For ease of readability, the new illustration is not underlined.]

Cumulative assessments	$ 868.00
Multiplied by benefit ratio	5.8914%
Equals Year 1 additional liability	($) 51.14

~~Cumulative revenue recognized~~	~~$ 868.00~~
~~Multiplied by benefit ratio~~	~~5.8914%~~
~~Equals year 1 additional liability~~	~~($) 51.14~~

944-40-55-23 The additional liability schedule~~minimum guaranteed death benefit liability amortized over total revenue~~ follows.

[For ease of readability, the new illustration is not underlined.]

Year	(A) Beginning Additional Liability	Interest	Total Assessments × Benefit Ratio	(B) Benefit Expense Incurred	(C) Excess Payments	(A) + (B) – (C) Ending Additional Liability	Change in Additional Liability
1	$ -	$ -	$ 51.14	$ 51.14	$ -	$ 51.14	$ 51.14
2	51.14	4.09	55.73	59.82	12.20	98.76	47.62
3	98.76	7.90	59.51	67.42	20.61	145.57	46.81
4	145.57	11.65	62.87	74.51	25.94	194.15	48.57
5	194.15	15.53	66.49	82.02	31.58	244.59	50.45
6	244.59	19.57	71.30	90.87	44.05	291.41	46.82
7	291.41	23.31	72.49	95.80	49.53	337.69	46.28
8	337.69	27.02	65.65	92.67	52.00	378.35	40.66
9	378.35	30.27	76.37	106.63	65.93	419.06	40.70
10	419.06	33.52	80.12	113.65	76.78	455.92	36.86
11	455.92	36.47	83.03	119.50	93.75	481.67	25.75
12	481.67	38.53	85.95	124.48	104.76	501.39	19.72
13	501.39	40.11	89.09	129.21	120.67	509.93	8.54
14	509.93	40.79	92.15	132.95	142.22	500.65	(9.27)
15	500.65	40.05	95.54	135.59	151.25	484.99	(15.66)
16	484.99	38.80	99.29	138.09	153.64	469.44	(15.55)
17	469.44	37.56	100.98	138.53	210.92	397.05	(72.39)
18	397.05	31.76	102.81	134.57	236.72	294.91	(102.14)
19	294.91	23.59	104.38	127.97	270.72	152.16	(142.75)
20	152.16	12.17	106.49	118.67	270.82	-	(152.16)

Year	Beginning Additional Minimum Guaranteed Death Benefit Liability	+	Interest	+	Total Revenue x Benefit Factor	–	Excess Death Benefits Paid	=	Ending Additional Minimum Guaranteed Death Benefit Liability	Change in Additional Liability
1	$ —		$ —		$ 51.14		$ —		$ 51.14	$ 51.14
2	51.14		4.09		55.73		12.20		98.76	47.63
3	98.76		7.90		59.51		20.61		145.57	46.81
4	145.57		11.65		62.87		25.94		194.15	48.57
5	194.15		15.53		66.49		31.58		244.59	50.45
6	244.59		19.57		71.30		44.05		291.41	46.82
7	291.41		23.31		72.49		49.53		337.69	46.28
8	337.69		27.02		65.65		52.00		378.35	40.66
9	378.35		30.27		76.37		65.93		419.06	40.70
10	419.06		33.52		80.12		76.78		455.92	36.86
11	455.92		36.47		83.03		93.75		481.67	25.75
12	481.67		38.53		85.95		104.76		501.39	19.72
13	501.39		40.11		89.09		120.67		509.93	8.54
14	509.93		40.79		92.15		142.22		500.65	(9.27)
15	500.65		40.05		95.54		151.25		484.99	(15.66)
16	484.99		38.80		99.29		153.64		469.44	(15.55)
17	469.44		37.56		100.98		210.92		397.05	(72.39)
18	397.05		31.76		102.81		236.72		294.91	(102.14)
19	294.91		23.59		104.38		270.72		152.16	(142.75)
20	152.16		12.17		106.49		270.82		—	(152.16)

944-40-55-24 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross profits to use for amortization of deferred acquisition costs follow.~~

Year	Unadjusted Gross Profits	–	Change in Additional Liability	=	Estimated Gross Profits
1	$ 843.00		$ 51.14		$ 791.86
2	763.55		47.63		715.92
3	811.80		46.81		765.00
4	855.22		48.57		806.64
5	900.54		50.45		850.09
6	961.38		46.82		914.56
7	966.82		46.28		920.55
8	838.07		40.66		797.40
9	996.05		40.70		955.35
10	1,038.61		36.86		1,001.75
11	1,063.08		25.75		1,037.34
12	1,110.44		19.72		1,090.72
13	1,122.78		8.54		1,114.24
14	1,143.86		(9.27)		1,153.13
15	1,184.28		(15.66)		1,199.94
16	1,235.39		(15.55)		1,250.95
17	1,202.54		(72.39)		1,274.93
18	1,203.27		(102.14)		1,305.41
19	1,192.05		(142.75)		1,334.80
20	1,222.52		(152.16)		1,374.68

944-40-55-25 Computation of components of the additional liability~~unadjusted gross profits~~ with a 10 percent increase in the account balance in Year 2 follows.

[For ease of readability, the new illustration is not underlined.]

Year	Expense Assessments	+ Mortality Assessments	+ Surrender Charges	= Total Assessments	Excess Payments
1	$ 30.00	$ 820.50	$ 17.50	$ 868.00	$ -
2	29.75	952.20	44.62	1,026.58	-
3	29.48	1,004.82	61.42	1,095.72	14.70
4	29.20	1,060.59	68.12	1,157.91	23.32
5	28.89	1,131.90	64.99	1,225.78	30.43
6	28.55	1,189.01	95.16	1,312.72	44.65
7	28.18	1,251.32	58.71	1,338.21	51.02
8	27.78	1,189.01	-	1,216.79	54.23
9	27.34	1,389.04	-	1,416.38	68.42
10	26.87	1,456.89	-	1,483.76	82.24
11	26.35	1,511.61	-	1,537.96	101.42
12	25.79	1,568.05	-	1,593.83	112.70
13	25.18	1,626.63	-	1,651.81	131.08
14	24.52	1,683.48	-	1,708.00	154.93
15	23.81	1,747.40	-	1,771.22	163.02
16	23.06	1,814.73	-	1,837.79	167.79
17	22.25	1,845.71	-	1,867.96	232.38
18	21.39	1,878.58	-	1,899.97	261.62
19	20.48	1,909.07	-	1,929.54	296.86
20	19.52	1,950.07	-	1,969.58	296.31
Present value				$ 13,326.45	$ 759.24

~~Year~~	~~Expense Assessments~~	~~+ Mortality Assessments~~	~~+ Surrender Charges~~	~~= Total Revenue~~	~~– Recurring Expenses Incurred~~	~~– Excess Death Benefits Paid~~	~~= Unadjusted Gross Profits~~
~~1~~	~~$ 30.00~~	~~$ 820.50~~	~~$ 17.50~~	~~$ 868.00~~	~~$ 25.00~~	~~$ -~~	~~$ 843.00~~
~~2~~	~~29.75~~	~~952.20~~	~~44.62~~	~~1,026.58~~	~~183.70~~	~~-~~	~~842.88~~
~~3~~	~~29.48~~	~~1,004.82~~	~~61.42~~	~~1,095.72~~	~~192.04~~	~~14.70~~	~~888.98~~
~~4~~	~~29.20~~	~~1,060.59~~	~~68.12~~	~~1,157.91~~	~~201.10~~	~~23.32~~	~~933.50~~
~~5~~	~~28.89~~	~~1,131.90~~	~~64.99~~	~~1,225.78~~	~~212.72~~	~~30.43~~	~~982.63~~
~~6~~	~~28.55~~	~~1,189.01~~	~~95.16~~	~~1,312.72~~	~~221.96~~	~~44.65~~	~~1,046.10~~
~~7~~	~~28.18~~	~~1,251.32~~	~~58.71~~	~~1,338.21~~	~~232.04~~	~~51.02~~	~~1,055.15~~
~~8~~	~~27.78~~	~~1,189.01~~	~~-~~	~~1,216.79~~	~~243.33~~	~~54.23~~	~~919.23~~
~~9~~	~~27.34~~	~~1,389.04~~	~~-~~	~~1,416.38~~	~~254.29~~	~~68.42~~	~~1,093.67~~
~~10~~	~~26.87~~	~~1,456.89~~	~~-~~	~~1,483.76~~	~~265.21~~	~~82.24~~	~~1,136.32~~
~~11~~	~~26.35~~	~~1,511.61~~	~~-~~	~~1,537.96~~	~~273.89~~	~~101.42~~	~~1,162.64~~
~~12~~	~~25.79~~	~~1,568.05~~	~~-~~	~~1,593.83~~	~~264.30~~	~~112.70~~	~~1,216.83~~
~~13~~	~~25.18~~	~~1,626.63~~	~~-~~	~~1,651.81~~	~~292.09~~	~~131.08~~	~~1,228.64~~
~~14~~	~~24.52~~	~~1,683.48~~	~~-~~	~~1,708.00~~	~~302.07~~	~~154.93~~	~~1,251.00~~
~~15~~	~~23.81~~	~~1,747.40~~	~~-~~	~~1,771.22~~	~~311.08~~	~~163.02~~	~~1,297.12~~
~~16~~	~~23.06~~	~~1,814.73~~	~~-~~	~~1,837.79~~	~~321.67~~	~~167.79~~	~~1,348.33~~
~~17~~	~~22.25~~	~~1,845.71~~	~~-~~	~~1,867.96~~	~~326.16~~	~~232.38~~	~~1,309.42~~
~~18~~	~~21.39~~	~~1,878.58~~	~~-~~	~~1,899.97~~	~~330.92~~	~~261.62~~	~~1,307.43~~
~~19~~	~~20.48~~	~~1,909.07~~	~~-~~	~~1,929.54~~	~~335.24~~	~~296.86~~	~~1,297.44~~
~~20~~	~~19.52~~	~~1,950.07~~	~~-~~	~~1,969.58~~	~~341.27~~	~~296.31~~	~~1,332.00~~
~~Present value~~				~~13,326.45~~		~~759.24~~	~~10,338.27~~

944-40-55-26 Computation of the benefit ratio at Year 2 follows.

[For ease of readability, the new illustration is not underlined.]

Present value of total expected excess payments over the life of the contract	$ 759.24
Divided by present value of total expected assessments over the life of the contract	13,326.45
Equals benefit ratio	5.6972%

~~Present value of excess death benefits paid~~		~~$ 759.24~~
~~Divided by present value of total revenue~~	=	~~13,326.45~~
~~Equals benefit ratio~~		~~5.6972%~~

944-40-55-27 Computation of the Year 2 additional ~~minimum guaranteed death benefit~~ liability follows.

[For ease of readability, the new illustration is not underlined.]

Cumulative assessments		
	Year 1	$ 868.00
	Year 2	1,026.58
	Total	1,894.58
Multiplied by benefit ratio		5.6972%
Equals Year 2 additional liability [(a)]		($) 107.94

(a) Excludes interest, any deduction for actual claim expenses, and accrued interest related to cumulative adjustment to benefits expense (which amounts to $.13).

~~Cumulative revenue recognized~~		
	~~Year 1~~	~~$ 868.00~~
	~~Year 2~~	~~1,026.58~~
	~~Total~~	~~1,894.58~~
~~Multiplied by benefit ratio~~		~~5.6972%~~
~~Equals year 2 additional liability~~~~[(a)]~~		~~($) 107.94~~

~~(a) Excludes interest and any deduction for actual claim expenses.~~

944-40-55-28 The updated additional ~~minimum guaranteed death benefit~~ liability ~~amortized over total revenue~~schedule follows.

[For ease of readability, the new illustration is not underlined.]

Year	(A) Beginning Additional Liability	Interest	Total Assessments × Benefit Ratio	Cumulative Adjustments to Benefit Expense	(B) Benefit Expense Incurred	(C) Excess Payments	(A) + (B) – (C) Ending Additional Liability	Change in Additional Liability
1	$ -	$ -	$ 51.14	$ -	$ 51.14	$ -	$ 51.14 [(a)]	$ 51.14
2	51.14	4.09	58.49	(1.82) [(b)]	60.76	-	111.89 [(c)]	60.76
3	111.89	8.95	62.43	-	71.38	14.70	168.57	56.68
4	168.57	13.49	65.97	-	79.45	23.32	224.71	56.13
5	224.71	17.98	69.84	-	87.81	30.43	282.09	57.38
6	282.09	22.57	74.79	-	97.36	44.65	334.79	52.71
7	334.79	26.78	76.24	-	103.02	51.02	386.80	52.00
8	386.80	30.94	69.32	-	100.27	54.23	432.83	46.04
9	432.83	34.63	80.69	-	115.32	68.42	479.73	46.90
10	479.73	38.38	84.53	-	122.91	82.24	520.40	40.67
11	520.40	41.63	87.62	-	129.25	101.42	548.24	27.83
12	548.24	43.86	90.80	-	134.66	112.70	570.20	21.96
13	570.20	45.62	94.11	-	139.72	131.08	578.84	8.64
14	578.84	46.31	97.31	-	143.62	154.93	567.53	(11.31)
15	567.53	45.40	100.91	-	146.31	163.02	550.82	(16.71)
16	550.82	44.07	104.70	-	148.77	167.79	531.80	(19.02)
17	531.80	42.54	106.42	-	148.97	232.38	448.38	(83.41)
18	448.38	35.87	108.25	-	144.12	261.62	330.88	(117.50)
19	330.88	26.47	109.93	-	136.40	296.86	170.42	(160.46)
20	170.42	13.63	112.21	-	125.84	296.31	-	(170.42)

(a) This represents the end-of-year liability using the original expense in Year 1.

(b) The difference of 1.82 between the actual Year 1 liability (51.14) and the recomputed amount (49.32) will be the true-up adjustment included in the Year 2 benefit expense.

(c) Year 1 (51.14) plus Year 2 (58.49) plus interest (4.09), less Year 2 cumulative adjustment to benefit expense (1.82), equals an ending additional liability balance of 111.89. Rounding results in a .01 difference.

~~Year~~	~~Beginning Additional Minimum Guaranteed Death Benefit Liability~~ +	~~Interest~~ +	~~Total Revenue x Benefit Factor~~ –	~~Excess Death Benefits Paid~~ =	~~Ending Additional Minimum Guaranteed Death Benefit Liability~~	~~Change in Additional Liability~~
~~1~~	~~$ -~~	~~$ -~~	~~$ 49.45~~ [(a)]	~~$ -~~	~~$ 49.45~~ [(b)]	~~$ 51.14~~
~~2~~	~~49.45~~	~~3.96~~	~~58.49~~ [(a)]	~~-~~	~~111.89~~ [(c)]	~~60.75~~
~~3~~	~~111.89~~	~~8.95~~	~~62.43~~	~~14.70~~	~~168.57~~	~~56.68~~
~~4~~	~~168.57~~	~~13.49~~	~~65.97~~	~~23.32~~	~~224.71~~	~~56.14~~
~~5~~	~~224.71~~	~~17.98~~	~~69.84~~	~~30.43~~	~~282.09~~	~~57.38~~
~~6~~	~~282.09~~	~~22.57~~	~~74.79~~	~~44.65~~	~~334.79~~	~~52.70~~
~~7~~	~~334.79~~	~~26.78~~	~~76.24~~	~~51.02~~	~~386.80~~	~~52.01~~
~~8~~	~~386.80~~	~~30.94~~	~~69.32~~	~~54.23~~	~~432.84~~	~~46.04~~
~~9~~	~~432.84~~	~~34.63~~	~~80.69~~	~~68.42~~	~~479.74~~	~~46.90~~
~~10~~	~~479.74~~	~~38.38~~	~~84.53~~	~~82.24~~	~~520.41~~	~~40.67~~
~~11~~	~~520.41~~	~~41.63~~	~~87.62~~	~~101.42~~	~~548.24~~	~~27.83~~
~~12~~	~~548.24~~	~~43.86~~	~~90.80~~	~~112.70~~	~~570.21~~	~~21.97~~
~~13~~	~~570.21~~	~~45.62~~	~~94.11~~	~~131.08~~	~~578.86~~	~~8.65~~
~~14~~	~~578.86~~	~~46.31~~	~~97.31~~	~~154.93~~	~~567.55~~	~~(11.31)~~
~~15~~	~~567.55~~	~~45.40~~	~~100.91~~	~~163.02~~	~~550.84~~	~~(16.71)~~
~~16~~	~~550.84~~	~~44.07~~	~~104.70~~	~~167.79~~	~~531.82~~	~~(19.02)~~
~~17~~	~~531.82~~	~~42.55~~	~~106.42~~	~~232.38~~	~~448.41~~	~~(83.41)~~
~~18~~	~~448.41~~	~~35.87~~	~~108.25~~	~~261.62~~	~~330.91~~	~~(117.50)~~
~~19~~	~~330.91~~	~~26.47~~	~~109.93~~	~~296.86~~	~~170.46~~	~~(160.45)~~
~~20~~	~~170.46~~	~~13.64~~	~~112.21~~	~~296.31~~	~~-~~	~~(170.46)~~

~~(a) Year 1, 49.45 + year 2, 58.49 = 107.94, as noted in paragraph 944-40-55-27, plus interest of 3.96 = 111.89.~~

~~(b) This represents the recomputed end-of-year liability using the new expense in Year 2.~~

~~(c) The difference between the actual Year 1 liability (51.14 as seen in paragraph 944-40-55-23) and the recomputed amount of (49.45) of 1.69 will be the true-up adjustment included in the Year 2 statement of operations (111.89 – 49.45 – 1.69 = 60.75).~~

944-40-55-29 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Estimated gross profits to use for amortization of deferred acquisition costs follow.~~

~~Year~~	~~Unadjusted Gross Profits~~	–	~~Change in Additional Liability~~	=	~~Estimated Gross Profits~~
~~1~~	~~$ 843.00~~		~~$ 51.14~~		~~$ 791.86~~
~~2~~	~~842.88~~		~~60.75~~		~~782.13~~
~~3~~	~~888.98~~		~~56.68~~		~~832.30~~
~~4~~	~~933.50~~		~~56.14~~		~~877.36~~
~~5~~	~~982.63~~		~~57.38~~		~~925.25~~
~~6~~	~~1,046.10~~		~~52.70~~		~~993.40~~
~~7~~	~~1,055.15~~		~~52.01~~		~~1,003.14~~
~~8~~	~~919.23~~		~~46.04~~		~~873.19~~
~~9~~	~~1,093.67~~		~~46.90~~		~~1,046.77~~
~~10~~	~~1,136.32~~		~~40.67~~		~~1,095.65~~
~~11~~	~~1,162.64~~		~~27.83~~		~~1,134.81~~
~~12~~	~~1,216.83~~		~~21.97~~		~~1,194.86~~
~~13~~	~~1,228.64~~		~~8.65~~		~~1,219.99~~
~~14~~	~~1,251.00~~		~~(11.31)~~		~~1,262.31~~
~~15~~	~~1,297.12~~		~~(16.71)~~		~~1,313.83~~
~~16~~	~~1,348.33~~		~~(19.02)~~		~~1,367.35~~
~~17~~	~~1,309.42~~		~~(83.41)~~		~~1,392.83~~
~~18~~	~~1,307.43~~		~~(117.50)~~		~~1,424.93~~
~~19~~	~~1,297.44~~		~~(160.45)~~		~~1,457.89~~
~~20~~	~~1,332.00~~		~~(170.46)~~		~~1,502.46~~

> > Example 2: Market Risk Benefits

> > > Guaranteed Minimum Accumulation or Death Benefit

944-40-55-29A A contract holder deposits $100,000 in a deferred ~~variable~~ annuity (either fixed or variable) that provides for a **{add glossary link}**guaranteed minimum accumulation benefit**{add glossary link}** that guarantees that at a specified anniversary date (for example, 5 years)~~. The~~ the contract holder's account balance will be the greater of the following:

a. The account value~~, as determined by the separate account assets~~
b. Deposits less partial withdrawals accumulated at 3 percent interest compounded annually. **[Content amended as shown and moved from paragraph 944-20-55-17]**

944-40-55-29B The contract holder's account balance is exposed to stock market performance. At the specified anniversary date the contract holder's account balance has declined to $80,000 due to stock market declines. The guaranteed minimum value of the $100,000 deposit compounded annually at 3 percent interest is $115,930. The contract holder's account balance will be increased to the greater amount, resulting in an account balance of $115,930. In this Example, the guaranteed minimum accumulation benefit meets the criteria for a market risk benefit in accordance with paragraph 944-40-25-25C because the guaranteed minimum accumulation benefit protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk. Specifically, the insurance entity compensates the contract holder for the shortfall (due to stock market declines) between the account balance amount of $80,000 and the guaranteed amount of $115,930. The guaranteed minimum accumulation benefit should be measured at fair value in accordance with paragraph 944-40-30-19C. Similarly, if on the date of the death of the contract holder the deferred annuity provides a guaranteed minimum death benefit amount of $115,930 while the account balance is $80,000, the guaranteed minimum death benefit meets the criteria for a market risk benefit in accordance with paragraph 944-40-25-25C because the insurance entity provides compensation for the shortfall (due to stock market declines) between the account balance amount of $80,000 and the guaranteed amount of $115,930. **[Content amended as shown and moved from paragraph 944-20-55-18]**

> > > Guaranteed Minimum Living Benefits

944-40-55-29C A contract holder deposits $100,000 in a deferred ~~variable~~ annuity (either fixed or variable) that provides a **{add glossary link}**guaranteed minimum income benefit**{add glossary link}**. The ~~guaranteed minimum income benefit~~ contract specifies that if the contract holder elects to annuitize, the amount available to annuitize will be the higher of the then account balance or the sum of deposits less withdrawals. The contract holder's account balance is exposed to stock market performance~~contract holder directs the deposit to equity-based funds within the separate account~~. At the date that the contract holder chooses to annuitize, the account balance has declined to $80,000 due to stock market declines. ~~The contract holder elects a 20-year period-certain fixed payout annuity, payable monthly in arrears. Using the $100,000 guaranteed minimum account value at the date of annuitization and a guaranteed 3 percent crediting rate, the fixed monthly periodic annuity payment is $554.~~ **[Content amended as shown and moved from paragraph 944-20-55-21]**

944-40-55-29D In this Example, the guaranteed minimum income benefit meets the criteria for a market risk benefit in accordance with paragraph 944-40-25-25C because the guaranteed minimum income benefit protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk. Specifically, the insurance entity compensates the contract holder for the shortfall (due to stock market declines) between the account balance amount of $80,000 and the $100,000 guaranteed amount at the **annuitization** date. During the **accumulation phase**, the guaranteed minimum income benefit feature should be measured at fair value in accordance with paragraph 944-40-30-19C. Similarly, if the deferred annuity provides a **guaranteed minimum withdrawal benefit** or a guaranteed minimum lifetime withdrawal benefit that protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk, the guaranteed minimum withdrawal benefit or the guaranteed minimum lifetime withdrawal benefit meets the criteria for a market risk benefit.

> > Example 3: Disclosure of Information about the Liability for Future Policy Benefits

944-40-55-29E This Example illustrates the information that an insurance entity with two major long-duration product lines (term life and whole life) should disclose in its 20X2 financial statements to meet certain requirements of paragraph 944-40-50-6.

Note X: Liability for Future Policy Benefits

The balances of and changes in the liability for future policy benefits follow.

[For ease of readability, the new illustrations in Examples 3–7 are not underlined.]

		December 31,			
		20X2		20X1	
		Term Life	Whole Life	Term Life	Whole Life
Present Value of Expected Net Premiums	Balance, beginning of year	$ VVV	$ VVV	$ XXX	$ XXX
	Beginning balance at original discount rate	WWW	WWW	XXX	XXX
	Effect of changes in cash flow assumptions	XXX	XXX	XXX	XXX
	Effect of actual variances from expected experience	XXX	XXX	XXX	XXX
	Adjusted beginning of year balance	XXX	XXX	XXX	XXX
	Issuances	XXX	XXX	XXX	XXX
	Interest accrual	XXX	XXX	XXX	XXX
	Net premiums collected [(a)]	(XXX)	(XXX)	(XXX)	(XXX)
	Derecognition (lapses)	(XXX)	(XXX)	(XXX)	(XXX)
	Ending balance at original discount rate	YYY	YYY	WWW	WWW
	Effect of changes in discount rate assumptions	XXX	XXX	XXX	XXX
	Balance, end of year	$ ZZZ	$ ZZZ	$ VVV	$ VVV
Present Value of Expected Future Policy Benefits	Balance, beginning of year	$ VVV	$ VVV	$ XXX	$ XXX
	Beginning balance at original discount rate	WWW	WWW	XXX	XXX
	Effect of changes in cash flow assumptions	XXX	XXX	XXX	XXX
	Effect of actual variances from expected experience	XXX	XXX	XXX	XXX
	Adjusted beginning of year balance	XXX	XXX	XXX	XXX
	Issuances	XXX	XXX	XXX	XXX
	Interest accrual	XXX	XXX	XXX	XXX
	Benefit payments	(XXX)	(XXX)	(XXX)	(XXX)
	Derecognition (lapses)	(XXX)	(XXX)	(XXX)	(XXX)
	Ending balance at original discount rate	YYY	YYY	WWW	WWW
	Effect of changes in discount rate assumptions	XXX	XXX	XXX	XXX
	Balance, end of year	$ ZZZ	$ ZZZ	$ VVV	$ VVV
	Net liability for future policy benefits	$ CCC	$ DDD	$ AAA	$ BBB
	Less: Reinsurance recoverable	XXX	XXX	XXX	XXX
	Net liability for future policy benefits, after reinsurance recoverable	$ XXX	$ XXX	$ XXX	$ XXX

(a) Net premiums collected represent the portion of gross premiums collected from policyholders that is used to fund expected benefit payments.

<u>The reconciliation of the net liability for future policy benefits to the liability for future policy benefits in the consolidated statement of financial position follows.</u>

	December 31,	
	20X2	20X1
Term life	$ CCC	$ AAA
Whole life	DDD	BBB
Other	XXX	XXX
Total	$ XXX	$ XXX

<u>The amount of undiscounted expected gross premiums and expected future benefit payments follows.</u>

	December 31,	
	20X2	20X1
Term life		
Expected future benefit payments	$ XXX	$ XXX
Expected future gross premiums	$ XXX	$ XXX
Whole life		
Expected future benefit payments	$ XXX	$ XXX
Expected future gross premiums	$ XXX	$ XXX

The amount of revenue and interest recognized in the statement of operations follows.

	Gross Premiums or Assessments		Interest Expense	
	December 31,		December 31,	
	20X2	20X1	20X2	20X1
Term life	$ XXX	$ XXX	$ XXX	$ XXX
Whole life	XXX	XXX	XXX	XXX
Other	XXX	XXX	XXX	XXX
Total	$ XXX	$ XXX	$ XXX	$ XXX

The weighted-average interest rate follows.

	December 31,	
	20X2	20X1
Term life		
Interest accretion rate	XXX%	XXX%
Current discount rate	XXX%	XXX%
Whole life		
Interest accretion rate	XXX%	XXX%
Current discount rate	XXX%	XXX%

> > Example 4: Disclosure of Information about the Liability for Policyholders' Account Balances

944-40-55-29F This Example illustrates the information that an insurance entity with two major long-duration products with policyholders' account balances (universal life and fixed annuities) should disclose in its 20X2 financial statements to meet certain requirements of paragraph 944-40-50-7A.

Note X: Policyholders' Account Balances

The balance of account values by range of guaranteed minimum crediting rates and the related range of difference, in basis points, between rates being credited to policyholders and the respective guaranteed minimums follow.

	December 31, 20X2					
	Range of Guaranteed Minimum Crediting Rate	At Guaranteed Minimum	1 Basis Point–50 Basis Points Above	51 Basis Points–150 Basis Points Above	Greater Than 150 Basis Points Above	Total
Universal Life	X.XX%–X.XX%	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
	X.XX%–X.XX%	XXX	XXX	XXX	XXX	XXX
	Greater than X.XX%	XXX	XXX	XXX	XXX	XXX
	Total	$ XXX	$ XXX	$ XXX	$ XXX	$ CCC
Fixed Annuity	X.XX%–X.XX%	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
	X.XX%–X.XX%	XXX	XXX	XXX	XXX	XXX
	Greater than X.XX%	XXX	XXX	XXX	XXX	XXX
	Total	$ XXX	$ XXX	$ XXX	$ XXX	$ DDD

	December 31, 20X1					
	Range of Guaranteed Minimum Crediting Rate	At Guaranteed Minimum	1 Basis Point–50 Basis Points Above	51 Basis Points–150 Basis Points Above	Greater Than 150 Basis Points Above	Total
Universal Life	X.XX%–X.XX%	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
	X.XX%–X.XX%	XXX	XXX	XXX	XXX	XXX
	Greater than X.XX%	XXX	XXX	XXX	XXX	XXX
	Total	$ XXX	$ XXX	$ XXX	$ XXX	$ AAA
Fixed Annuity	X.XX%–X.XX%	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
	X.XX%–X.XX%	XXX	XXX	XXX	XXX	XXX
	Greater than X.XX%	XXX	XXX	XXX	XXX	XXX
	Total	$ XXX	$ XXX	$ XXX	$ XXX	$ BBB

The balances of and changes in policyholders' account balances follow.

	December 31,							
	20X2				20X1			
	Universal Life		Fixed Annuity		Universal Life		Fixed Annuity	
Balance, beginning of year	$	AAA	$	BBB	$	XXX	$	XXX
Issuances		XXX		XXX		XXX		XXX
Premiums received		XXX		XXX		XXX		XXX
Policy charges [a]		(XXX)		(XXX)		(XXX)		(XXX)
Surrenders and withdrawals		(XXX)		(XXX)		(XXX)		(XXX)
Benefit payments		(XXX)		(XXX)		(XXX)		(XXX)
Net transfers from (to) separate account		XXX		XXX		XXX		XXX
Interest credited		XXX		XXX		XXX		XXX
Other		XXX		XXX		XXX		XXX
Balance, end of year	$	CCC	$	DDD	$	AAA	$	BBB
Weighted-average crediting rate		X.XX%		X.XX%		X.XX%		X.XX%
Net amount at risk [b]	$	XXX	$	XXX	$	XXX	$	XXX
Cash surrender value	$	XXX	$	XXX	$	XXX	$	XXX

(a) Contracts included in the policyholder account balances are generally charged a premium and/or monthly assessments on the basis of the account balance.

(b) For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date.

The reconciliation of policyholders' account balances to the policyholders' account balances' liability in the consolidated statement of financial position follows.

	December 31,	
	20X2	20X1
Universal life	$ CCC	$ AAA
Fixed annuity	DDD	BBB
Other	XXX	XXX
Total	$ XXX	$ XXX

> > Example 5: Disclosure of Information about Market Risk Benefits

944-40-55-29G This Example illustrates the information that an insurance entity with market risk benefits should disclose in its 20X2 financial statements to meet certain requirements of paragraph 944-40-50-7B.

Note X: Market Risk Benefits

The balances of and changes in guaranteed minimum withdrawal benefits associated with variable annuities and indexed annuities follow.

	December 31, 20X2		December 31, 20X1	
	Variable Annuities	Indexed Annuities	Variable Annuities	Indexed Annuities
Balance, beginning of year	$ AAA	$ FFF	$ XXX	$ XXX
Balance, beginning of year, before effect of changes in the instrument-specific credit risk	XXX	XXX	XXX	XXX
Issuances	XXX	XXX	XXX	XXX
Interest accrual	XXX	XXX	XXX	XXX
Attributed fees collected	XXX	XXX	XXX	XXX
Benefit payments	(XXX)	(XXX)	(XXX)	(XXX)
Effect of changes in interest rates	XXX	XXX	XXX	XXX
Effect of changes in equity markets	XXX	XXX	XXX	XXX
Effect of changes in equity index volatility	XXX	XXX	XXX	XXX
Actual policyholder behavior different from expected behavior	XXX	XXX	XXX	XXX
Effect of changes in future expected policyholder behavior	XXX	XXX	XXX	XXX
Effect of changes in other future expected assumptions	XXX	XXX	XXX	XXX
Balance, end of year, before effect of changes in the instrument-specific credit risk	XXX	XXX	XXX	XXX
Effect of changes in the instrument-specific credit risk	XXX	XXX	XXX	XXX
Balance, end of year	$ GGG	$ LLL	$ AAA	$ FFF
Reinsurance recoverable, end of year	$ XXX	$ XXX	$ XXX	$ XXX
Balance, end of year, net of reinsurance	$ XXX	$ XXX	$ XXX	$ XXX

The reconciliation of market risk benefits by amounts in an asset position and in a liability position to the market risk benefits amount in the consolidated statement of financial position follows.

	December 31,					
	20X2			20X1		
	Asset	Liability	Net	Asset	Liability	Net
Variable annuities	$ XXX	$ XXX	$ GGG	$ XXX	$ XXX	$ AAA
Indexed annuities	XXX	XXX	LLL	XXX	XXX	FFF
	$ XXX	$ XXX	$ NNN	$ XXX	$ XXX	$ MMM

> > Example 6: Updating of Assumptions Used in the Measurement of the Liability for Future Policy Benefits

944-40-55-29H This Example illustrates an approach to updating assumptions used to measure the liability for future policy benefits related to traditional life insurance contracts.

944-40-55-29I This Example assumes the following for the contracts discussed:

a. At contract inception:
   1. The insurance entity issues 1,000 guaranteed-renewable 20-year term life insurance contracts that are grouped into a single cohort for purposes of measuring the liability for future policy benefits.
   2. Face amount per contract: $200,000.
   3. Annual premium per contact: $500.
   4. Discount rate: 0 percent.
   5. **Lapse rate**: 5 percent for all years.
   6. Mortality rate: 0.1 percent in Year 1, increasing linearly to 0.29 percent in Year 20.
   7. For ease of illustration, no expenses are assumed, benefit payments and premium receipts occur at the end of the year, and annual periods are presented.

b. During Year 6: The insurance entity experiences unfavorable mortality that is 20 percent higher than expected. The insurance entity determines that it does not need to change its future mortality or lapse assumptions.

c. During Year 9: After experiencing continued unfavorable mortality (20 percent higher than expected in Years 7 through 9), the insurance entity increases its mortality assumption by 20 percent for Years 10 through 20.

d. During Year 10: The current upper-medium grade (low-credit-risk) fixed-income instrument yield increases from 0 percent to 2 percent. The insurance entity does not change its future mortality or lapse assumptions.

944-40-55-29J This Example illustrates computations involved in the following:

a. Net premiums
b. Liability remeasurement adjustments.

944-40-55-29K The computation of the original net premium ratio at the issue date of the portfolio of contracts follows.

	Original Cash Flow Estimate	
Year	Benefits	Gross Premiums
1	$ 200.0	$ 500.0
2	208.8	474.5
3	216.1	450.3
4	222.2	427.3
5	227.0	405.4
6	230.7	384.6
7	233.5	364.8
8	235.3	346.0
9	236.3	328.1
10	236.5	311.2
11	236.0	295.1
12	235.0	279.7
13	233.4	265.2
14	231.3	251.4
15	228.7	238.3
16	225.8	225.8
17	222.5	214.0
18	219.0	202.8
19	215.1	192.1
20	211.1	182.0
Total	$ 4,504.4	$ 6,338.4
Present value [(a)]	$ 4,504.4	$ 6,338.4
Net premium ratio [(b)]	71.1%	

(a) 0% discount rate.
(b) Present value of benefits/present value of gross premiums (for Years 1–20).

944-40-55-29L The computation of the liability for future policy benefits at the end of Year 1 follows.

Liability for Future Policy Benefits (End of Year 1)

Year	Benefits	Gross Premiums	Net Premiums [a]
2	$ 208.8	$ 474.5	$ 337.2
3	216.1	450.3	320.0
4	222.2	427.3	303.6
5	227.0	405.4	288.1
6	230.7	384.6	273.3
7	233.5	364.8	259.2
8	235.3	346.0	245.9
9	236.3	328.1	233.2
10	236.5	311.2	221.1
11	236.0	295.1	209.7
12	235.0	279.7	198.8
13	233.4	265.2	188.5
14	231.3	251.4	178.6
15	228.7	238.3	169.3
16	225.8	225.8	160.5
17	222.5	214.0	152.1
18	219.0	202.8	144.1
19	215.1	192.1	136.5
20	211.1	182.0	129.3
Total	$ 4,304.4	$ 5,838.4	$ 4,149.0
Present value [b]	$ 4,304.4	$ 5,838.4	$ 4,149.0

(a) Gross premiums × 71.1% net premium ratio.
(b) 0% discount rate.

Present value of future benefits (for Years 2–20)	$ 4,304.4
Less: Present value of future net premiums (for Years 2–20)	4,149.0
Liability for future policy benefits	$ 155.4

Accounting Entries (Year 1)

	Debit	Credit
Cash [a]	$ 300.0	
Benefits expense [b]	355.4	
Premium income		$ 500.0
Liability for future policy benefits		155.4

(a) Premiums collected of $500.0, less benefits paid of $200.0.
(b) Benefits paid of $200.0, plus change in reserve of $155.4.

944-40-55-29M At the end of Year 6, the Entity updates its mortality assumption to reflect the unfavorable experience in that year (that is, the true-up from expected experience to actual experience) and its effect on estimated cash flows. However, as specified in paragraph 944-40-35-5(a), the Entity reviewed its future cash flow assumptions and determined that its future mortality and lapse assumptions did not need to be adjusted.

The following table provides information about the estimated cash flow effects of updating cash flow assumptions and the corresponding adjustment to the liability for future policy benefits and current-period benefit expense.

	Original Cash Flow Estimate		Updated Cash Flow Estimate [a]		Change	
Year	Benefits	Gross Premiums	Benefits	Gross Premiums	Benefits	Gross Premiums
1	$ 200.0	$ 500.0	$ 200.0	$ 500.0	$ -	$ -
2	208.8	474.5	208.8	474.5	-	-
3	216.1	450.3	216.1	450.3	-	-
4	222.2	427.3	222.2	427.3	-	-
5	227.0	405.4	227.0	405.4	-	-
6	230.7	384.6	276.9	384.6	46.1	-
7	233.5	364.8	233.4	364.7	(0.1)	(0.1)
8	235.3	346.0	235.2	345.9	(0.1)	(0.1)
9	236.3	328.1	236.2	328.0	(0.1)	(0.1)
10	236.5	311.2	236.4	311.1	(0.1)	(0.1)
11	236.0	295.1	236.0	295.0	(0.1)	(0.1)
12	235.0	279.7	234.9	279.7	(0.1)	(0.1)
13	233.4	265.2	233.3	265.1	(0.1)	(0.1)
14	231.3	251.4	231.2	251.3	(0.1)	(0.1)
15	228.7	238.3	228.7	238.2	(0.1)	(0.1)
16	225.8	225.8	225.7	225.7	(0.1)	(0.1)
17	222.5	214.0	222.5	213.9	(0.1)	(0.1)
18	219.0	202.8	218.9	202.7	(0.1)	(0.1)
19	215.1	192.1	215.1	192.0	(0.1)	(0.1)
20	211.1	182.0	211.0	181.9	(0.1)	(0.1)
Total	$ 4,504.4	$ 6,338.4	$ 4,549.6	$ 6,337.3	$ 45.2	$ (1.1)
Present value [b]	$ 4,504.4	$ 6,338.4	$ 4,549.6	$ 6,337.3	$ 45.2	$ (1.1)
Net premium ratio [c]	71.1%		71.8%			

(a) Benefits and gross premiums for Years 1–6 represent actual (historical) cash flows. Years 7–20 represent expected (future) cash flows.
(b) 0% discount rate.
(c) Present value of benefits/present value of gross premiums (for Years 1–20).

Remeasurement of Liability for Future Policy Benefits (Beginning of Year 6)

	Original Estimate			Updated Estimate		
Year	Benefits	Gross Premiums	Net Premiums (a)	Benefits	Gross Premiums	Net Premiums (b)
6	$ 230.7	$ 384.6	$ 273.3	$ 276.9	$ 384.6	$ 276.1
7	233.5	364.8	259.2	233.4	364.7	261.8
8	235.3	346.0	245.9	235.2	345.9	248.3
9	236.3	328.1	233.2	236.2	328.0	235.5
10	236.5	311.2	221.1	236.4	311.1	223.3
11	236.0	295.1	209.7	236.0	295.0	211.8
12	235.0	279.7	198.8	234.9	279.7	200.8
13	233.4	265.2	188.5	233.3	265.1	190.3
14	231.3	251.4	178.6	231.2	251.3	180.4
15	228.7	238.3	169.3	228.7	238.2	171.0
16	225.8	225.8	160.5	225.7	225.7	162.1
17	222.5	214.0	152.1	222.5	213.9	153.6
18	219.0	202.8	144.1	218.9	202.7	145.5
19	215.1	192.1	136.5	215.1	192.0	137.9
20	211.1	182.0	129.3	211.0	181.9	130.6
Total	$ 3,430.2	$ 4,081.0	$ 2,900.1	$ 3,475.4	$ 4,079.8	$ 2,928.9
Present value (c)	$ 3,430.2	$ 4,081.0	$ 2,900.1	$ 3,475.4	$ 4,079.8	$ 2,928.9

(a) Gross premiums × 71.1% net premium ratio.
(b) Gross premiums × 71.8% net premium ratio.
(c) 0% discount rate.

	Original Estimate	Updated Estimate	Change
Present value of future benefits (for Years 6–20)	$ 3,430.2	$ 3,475.4	$ 45.2
Less: Present value of future net premiums (for Years 6–20)	2,900.1	2,928.9	28.8
Liability for future policy benefits	$ 530.1	$ 546.5	$ 16.4

Liability for Future Policy Benefits (End of Year 6)

Year	Benefits	Gross Premiums	Net Premiums [a]
7	$ 233.4	$ 364.7	$ 261.8
8	235.2	345.9	248.3
9	236.2	328.0	235.5
10	236.4	311.1	223.3
11	236.0	295.0	211.8
12	234.9	279.7	200.8
13	233.3	265.1	190.3
14	231.2	251.3	180.4
15	228.7	238.2	171.0
16	225.7	225.7	162.1
17	222.5	213.9	153.6
18	218.9	202.7	145.5
19	215.1	192.0	137.9
20	211.0	181.9	130.6
Total	$ 3,198.5	$ 3,695.3	$ 2,652.8
Present value [b]	$ 3,198.5	$ 3,695.3	$ 2,652.8

(a) Gross premiums × 71.8% net premium ratio.
(b) 0% discount rate.

Present value of future benefits (for Years 7–20)	$ 3,198.5
Less: Present value of future net premiums (for Years 7–20)	2,652.8
Liability for future policy benefits	$ 545.7

Accounting Entries (Year 6)

	Debit	Credit
Cash [a]	$ 107.7	
Benefits expense [b]	276.1	
Liability remeasurement loss [c]	16.4	
Premium income		$ 384.6
Liability for future policy benefits [d]		15.6

(a) Premiums collected of $384.6, less benefits paid of $276.9.
(b) Benefits paid of $276.9, less change in reserve of $0.8 using current net premium ratio of 71.8%.
(c) Separately presented in the statement of operations.
(d) Liability remeasurement of $16.4, less current period change in reserve of $0.8.

944-40-55-29N At the end of Year 9, the Entity reviews and updates its mortality assumption to reflect the unfavorable experience in that year and an increase in expected mortality in Years 10 through 20.

The following tables provide information about the estimated cash flow effects of updating the mortality assumption and the corresponding adjustment to the liability for future policy benefits and current-period benefit expense.

Year	Prior Cash Flow Estimate		Updated Cash Flow Estimate [a]		Change	
	Benefits	Gross Premiums	Benefits	Gross Premiums	Benefits	Gross Premiums
1	$ 200.0	$ 500.0	$ 200.0	$ 500.0	$ -	$ -
2	208.8	474.5	208.8	474.5	-	-
3	216.1	450.3	216.1	450.3	-	-
4	222.2	427.3	222.2	427.3	-	-
5	227.0	405.4	227.0	405.4	-	-
6	276.9	384.6	276.9	384.6	-	-
7	280.1	364.7	280.1	364.7	-	-
8	282.2	345.8	282.2	345.8	-	-
9	236.0	327.8	283.2	327.8	47.2	-
10	236.3	310.9	283.4	310.8	47.2	(0.1)
11	235.8	294.8	282.8	294.6	47.0	(0.2)
12	234.8	279.5	281.4	279.2	46.6	(0.3)
13	233.1	264.9	279.3	264.5	46.2	(0.4)
14	231.1	251.1	276.7	250.6	45.7	(0.5)
15	228.5	238.0	273.5	237.4	45.0	(0.6)
16	225.6	225.6	269.9	224.9	44.3	(0.7)
17	222.3	213.8	265.9	213.0	43.5	(0.7)
18	218.8	202.6	261.5	201.8	42.7	(0.8)
19	214.9	191.9	256.8	191.0	41.8	(0.9)
20	210.9	181.8	251.8	180.9	40.9	(0.9)
Total	$ 4,641.4	$ 6,335.3	$ 5,179.5	$ 6,329.1	$ 538.1	$ (6.1)
Present value [b]	$ 4,641.4	$ 6,335.3	$ 5,179.5	$ 6,329.1	$ 538.1	$ (6.1)
Net premium ratio [c]	73.3%		81.8%			

(a) Benefits and gross premiums for Years 1–9 represent actual (historical) cash flows. Years 10–20 represent expected (future) cash flows.
(b) 0% discount rate.
(c) Present value of benefits/present value of gross premiums (for Years 1–20).

Remeasurement of Liability for Future Policy Benefits (Beginning of Year 9)

	Prior Estimate			Updated Estimate		
Year	Benefits	Gross Premiums	Net Premiums [(a)]	Benefits	Gross Premiums	Net Premiums [(b)]
9	$ 236.0	$ 327.8	$ 240.2	$ 283.2	$ 327.8	$ 268.3
10	236.3	310.9	227.8	283.4	310.8	254.3
11	235.8	294.8	216.0	282.8	294.6	241.1
12	234.8	279.5	204.7	281.4	279.2	228.4
13	233.1	264.9	194.1	279.3	264.5	216.5
14	231.1	251.1	184.0	276.7	250.6	205.1
15	228.5	238.0	174.4	273.5	237.4	194.3
16	225.6	225.6	165.3	269.9	224.9	184.1
17	222.3	213.8	156.6	265.9	213.0	174.3
18	218.8	202.6	148.4	261.5	201.8	165.1
19	214.9	191.9	140.6	256.8	191.0	156.3
20	210.9	181.8	133.2	251.8	180.9	148.0
Total	$ 2,728.1	$ 2,982.7	$ 2,185.2	$ 3,266.2	$ 2,976.6	$ 2,435.9
Present value [(c)]	$ 2,728.1	$ 2,982.7	$ 2,185.2	$ 3,266.2	$ 2,976.6	$ 2,435.9

(a) Gross premiums × 73.3% net premium ratio.
(b) Gross premiums × 81.8% net premium ratio.
(c) 0% discount rate.

	Prior Estimate	Updated Estimate	Change
Present value of future benefits (for Years 9–20)	$ 2,728.1	$ 3,266.2	$ 538.1
Less: Present value of future net premiums (for Years 9–20)	2,185.2	2,435.9	250.7
Liability for future policy benefits	$ 542.9	$ 830.3	$ 287.4

Liability for Future Policy Benefits (End of Year 9)

Year	Benefits	Gross Premiums	Net Premiums [(a)]
10	$ 283.4	$ 310.8	$ 254.3
11	282.8	294.6	241.1
12	281.4	279.2	228.4
13	279.3	264.5	216.5
14	276.7	250.6	205.1
15	273.5	237.4	194.3
16	269.9	224.9	184.1
17	265.9	213.0	174.3
18	261.5	201.8	165.1
19	256.8	191.0	156.3
20	251.8	180.9	148.0
Total	$ 2,983.0	$ 2,648.7	$ 2,167.6
Present value [(b)]	$ 2,983.0	$ 2,648.7	$ 2,167.6

(a) Gross premiums × 81.8% net premium ratio.
(b) 0% discount rate.

Present value of future benefits (for Years 10–20)	$ 2,983.0
Less: Present value of future net premiums (for Years 10–20)	2,167.6
Liability for future policy benefits	$ 815.4

Accounting Entries (Year 9)

	Debit	Credit
Cash [(a)]	$ 44.6	
Benefits expense [(b)]	268.3	
Liability remeasurement loss [(c)]	287.4	
Premium income		$ 327.8
Liability for future policy benefits [(d)]		272.5

(a) Premiums collected of $327.8, less benefits paid of $283.2.
(b) Benefits paid of $283.2, less change in reserve of $14.9 using current net premium ratio of 81.8%.
(c) Separately presented in the statement of operations.
(d) Liability remeasurement of $287.4, less current period change in reserve of $14.9.

944-40-55-29O At the end of Year 10, the Entity updates its discount rate assumption from 0 percent to 2 percent.

The following table provides information about the effect of updating the discount rate assumption and the adjustment to the liability for future policy benefits and other comprehensive income.

Liability for Future Policy Benefits (End of Year 10)

	Original Discount Rate 0%	Current Discount Rate 2%	Change
Present value of future benefits (for Years 11–20)	$ 2,699.6	$ 2,430.0	$ (269.6)
Less: Present value of future net premiums (for Years 11–20)	1,913.3	1,733.8	(179.5)
Liability for future policy benefits	$ 786.3	$ 696.2	$ (90.1)

Decrease to Liability for Future Policy Benefits (End of Year 10)

Liability for future policy benefits	$ 90.1	
Other comprehensive income		$ 90.1

> > Example 7: Updating of Assumptions Used in the Measurement of the Liability for Future Policy Benefits with a Carryover Basis

944-40-55-29P This Example illustrates an approach to updating assumptions used to measure the liability for future policy benefits with a carryover basis.

944-40-55-29Q This Example assumes the following for the contracts discussed:

a. The beginning of Year 4 carryover basis is $387.6, which will be used in subsequent recalculations of the net premium ratio.
b. At the beginning of Year 4, the Entity updates cash flow assumptions and recalculates net premiums.
c. A discount rate of 0 percent is used to compute the net premiums and the liability for future policy benefits.
d. For ease of illustration, no expenses are assumed, benefit payments and premium receipts are made at the end of the year, and annual periods are presented.

944-40-55-29R This Example illustrates computations that involve the following:

a. Net premiums
b. Updates of the net premium ratio.

944-40-55-29S At the beginning of Year 4, the Entity recalculates the net premiums as follows.

Net Premium Ratio

Year	Benefits	Gross Premiums
4	$ 222.2	$ 427.3
5	227.0	405.4
6	276.9	384.6
7	233.4	364.7
8	235.2	345.9
9	236.2	328.0
10	236.4	311.1
11	236.0	295.0
12	234.9	279.7
13	233.3	265.1
14	231.2	251.3
15	228.7	238.2
16	225.7	225.7
17	222.5	213.9
18	218.9	202.7
19	215.1	192.0
20	211.0	181.9
Total	$ 3,924.6	$ 4,912.5
Present value [a]	$ 3,924.6	$ 4,912.5

(a) 0% discount rate.

Present value of benefits (for Years 4–20)	(A)	$3,924.6	
Carrying value of the liability for future policy benefits (end of Year 3)	(B)	387.6	
Expected remaining benefits	(A) – (B) = (C)	3,537.0	
Present value of gross premiums (for Years 4–20)			(D) $4,912.5
Updated net premium ratio = (C)/(D)			72.0%

944-40-55-29T The computation of the liability for future policy benefits at the end of Year 4 using the revised net premiums follows.

Liability for Future Policy Benefits (End of Year 4)

Year	Benefits	Gross Premiums	Net Premiums [(a)]
5	$ 227.0	$ 405.4	$ 291.9
6	276.9	384.6	276.9
7	233.4	364.7	262.6
8	235.2	345.9	249.0
9	236.2	328.0	236.2
10	236.4	311.1	224.0
11	236.0	295.0	212.4
12	234.9	279.7	201.4
13	233.3	265.1	190.9
14	231.2	251.3	180.9
15	228.7	238.2	171.5
16	225.7	225.7	162.5
17	222.5	213.9	154.0
18	218.9	202.7	145.9
19	215.1	192.0	138.3
20	211.0	181.9	131.0
Total	$ 3,702.4	$ 4,485.2	$ 3,229.4
Present value [(b)]	$ 3,702.4	$ 4,485.2	$ 3,229.4

(a) Gross premiums × 72.0% net premium ratio.
(b) 0% discount rate.

Present value of future benefits (for Years 5–20)	$ 3,702.4
Less: Present value of future net premiums (for Years 5–20)	3,229.4
Liability for future policy benefits	$ 473.0

944-40-55-29U At the end of Year 6, the Entity reviews and updates its mortality assumption as specified in paragraph 944-40-35-5(a), which results in an adjustment to benefit expenses and the liability for future policy benefits.

Net Premium Ratio

Year [(a)]	Benefits	Gross Premiums
4	$ 222.2	$ 427.3
5	227.0	405.4
6	276.9	384.6
7	280.1	364.7
8	282.2	345.8
9	283.2	327.8
10	283.4	310.8
11	282.8	294.6
12	281.4	279.2
13	279.3	264.5
14	276.7	250.6
15	273.5	237.4
16	269.9	224.9
17	265.9	213.0
18	261.5	201.8
19	256.8	191.0
20	251.8	180.9
Total	$ 4,554.6	$ 4,904.3
Present value [(b)]	$ 4,554.6	$ 4,904.3

(a) Benefits and gross premiums for Years 4–6 represent actual (historical) cash flows. Years 7–20 represent expected (future) cash flows.
(b) 0% discount rate.

Present value of benefits (for Years 4–20)	(A)	$ 4,554.6		
Carrying value of the liability for future policy benefits (end of Year 3)	(B)	387.6		
Expected remaining benefits	(A) – (B) = (C)	4,167.0		
Present value of gross premiums (for Years 4–20)			(D)	$ 4,904.3
Updated net premium ratio = (C)/(D)				85.0%

Remeasurement of Liability for Future Policy Benefits (Beginning of Year 6)

	Original Estimate			Updated Estimate		
Year	Benefits	Gross Premiums	Net Premiums [(a)]	Benefits	Gross Premiums	Net Premiums [(b)]
6	$ 276.9	$ 384.6	$ 276.9	$ 276.9	$ 384.6	$ 326.8
7	233.4	364.7	262.6	280.1	364.7	309.9
8	235.2	345.9	249.0	282.2	345.8	293.8
9	236.2	328.0	236.2	283.2	327.8	278.5
10	236.4	311.1	224.0	283.4	310.8	264.0
11	236.0	295.0	212.4	282.8	294.6	250.3
12	234.9	279.7	201.4	281.4	279.2	237.2
13	233.3	265.1	190.9	279.3	264.5	224.8
14	231.2	251.3	180.9	276.7	250.6	213.0
15	228.7	238.2	171.5	273.5	237.4	201.8
16	225.7	225.7	162.5	269.9	224.9	191.1
17	222.5	213.9	154.0	265.9	213.0	181.0
18	218.9	202.7	145.9	261.5	201.8	171.4
19	215.1	192.0	138.3	256.8	191.0	162.3
20	211.0	181.9	131.0	251.8	180.9	153.7
Total	$ 3,475.4	$ 4,079.8	$ 2,937.5	$ 4,105.4	$ 4,071.6	$ 3,459.5
Present value [(c)]	$ 3,475.4	$ 4,079.8	$ 2,937.5	$ 4,105.4	$ 4,071.6	$ 3,459.5

(a) Gross premiums × 72.0% net premium ratio.
(b) Gross premiums × 85.0% net premium ratio.
(c) 0% discount rate.

	Original Estimate	Updated Estimate	Change
Present value of future benefits (for Years 6–20)	$ 3,475.4	$ 4,105.4	$ 630.0
Less: Present value of future net premiums (for Years 6–20)	2,937.5	3,459.5	522.0
Liability for future policy benefits	$ 537.9	$ 645.9	$ 108.0

Liability for Future Policy Benefits (End of Year 6)

Year	Benefits	Gross Premiums	Net Premiums [(a)]
7	$ 280.1	$ 364.7	$ 309.9
8	282.2	345.8	293.8
9	283.2	327.8	278.5
10	283.4	310.8	264.0
11	282.8	294.6	250.3
12	281.4	279.2	237.2
13	279.3	264.5	224.8
14	276.7	250.6	213.0
15	273.5	237.4	201.8
16	269.9	224.9	191.1
17	265.9	213.0	181.0
18	261.5	201.8	171.4
19	256.8	191.0	162.3
20	251.8	180.9	153.7
Total	$ 3,828.5	$ 3,687.1	$ 3,132.7
Present value [(b)]	$ 3,828.5	$ 3,687.1	$ 3,132.7

(a) Gross premiums × 85.0% net premium ratio.
(b) 0% discount rate.

Present value of future benefits (for Years 7–20)	$3,828.5
Less: Present value of future net premiums (for Years 7–20)	3,132.7
Liability for future policy benefits	$ 695.8

Accounting Entries (Year 6)

	Debit	Credit
Cash [(a)]	$ 107.7	
Benefits expense [(b)]	326.8	
Liability remeasurement loss [(c)]	108.0	
Premium income		$ 384.6
Liability for future policy benefits [(d)]		157.9

(a) Premiums collected of $384.6, less benefits paid of $276.9.
(b) Benefits paid of $276.9, plus change in reserve of $49.9 using current net premium ratio of 85.0%.
(c) Separately presented in the statement of operations.
(d) Liability remeasurement of $108.0, plus current period change in reserve of $49.9.

14. Add paragraph 944-40-65-2 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

944-40-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts:*

a. For **public business entities,** the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application is permitted.
b. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted.

Liability for future policy benefits and deferred acquisition costs

c. At the beginning of the earliest period presented (that is, the transition date), an insurance entity shall apply the pending content that links to this paragraph about the **liability for future policy benefits** and deferred **acquisition costs** (and balances amortized on a basis consistent with deferred acquisition costs, either as required by this Topic or as a result of an accounting policy election) to contracts **in force** on the basis of their existing carrying amounts at the transition date and by using updated cash flow assumptions, adjusted for the removal of any amounts in accumulated other comprehensive income.
d. For the liability for future policy benefits:
    1. For purposes of determining the ratio of **net premiums** to **gross premiums** and for purposes of interest accretion, an insurance entity shall retain the discount rate assumption that was used to calculate the liability immediately before the application of the pending content that links to this paragraph.
    2. The present value of future benefits and related expenses less the transition date carrying amount shall be compared with the present value of future gross premiums to calculate the ratio of net premiums to gross premiums.
    3. An insurance entity shall adjust the opening balance of retained earnings only to the extent that net premiums exceed gross premiums.

4. An insurance entity shall compare the liability for the future policy benefits balance using the discount rate assumption in (d)(1) and the current discount rate (that is, the upper-medium-grade [low-credit-risk] fixed-income instrument yield as of the transition date). Any resulting difference in the liability for the future policy benefits balance shall be recorded to opening accumulated other comprehensive income.
5. The transition date shall be considered the revised contract issue date for purposes of subsequent adjustments but not for purposes of contract grouping.
6. For contracts in force issued before the transition date, an insurance entity shall not group contracts together from different original contract issue years but shall group contracts into quarterly or annual groups on the basis of original contract issue date for purposes of calculating the liability for future policy benefits. For acquired contracts, the acquisition date shall be considered the original contract issue date.

e. An insurance entity may elect to apply the pending content that links to this paragraph retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings or the opening balance of accumulated other comprehensive income, as applicable, as of the transition date) using actual historical experience information as of contract inception (or contract acquisition, if applicable). For consistency:
   1. An insurance entity shall apply the same transition method to both the liability for future policy benefits and deferred acquisition costs (and balances amortized on a basis consistent with deferred acquisition costs, either as required by this Topic or as a result of an accounting policy election).
   2. The retrospective election shall be made at the same contract issue-year level for both the liability for future policy benefits and deferred acquisition costs for that contract issue year and all subsequent contract issue years, on an entity-wide basis (that is, applied to all contracts and product types).
   3. Estimates of historical experience information shall not be substituted for actual historical experience information.
   4. An insurance entity shall apply the pending content that links to this paragraph in accordance with (c) and (d) for contracts issued (or acquired) before the earliest issue-year level elected for retrospective application.

Market risk benefits

f. At the beginning of the earliest period presented (that is, the transition date), an insurance entity shall apply the pending content that links to this paragraph on **market risk benefits** by means of retrospective application to all prior periods. An insurance entity shall maximize the use of relevant observable information as of contract inception and minimize the use of unobservable information in determining the market risk benefits balance at the beginning of the earliest period presented. If retrospective application requires assumptions in the prior period that are unobservable or otherwise unavailable and cannot be independently substantiated, the insurance entity may use hindsight in determining those assumptions. The transition adjustment shall be recognized as follows:

1. The cumulative effect of changes in the instrument-specific credit risk between contract issue date and transition date shall be recognized in accumulated other comprehensive income as of the transition date.
2. The difference between **fair value** and carrying value at the transition date, excluding the amount in (f)(1), shall be recognized as an adjustment to the opening balance of retained earnings as of the transition date.

Transition disclosures

g. An insurance entity shall disclose the following information about the liability for future policy benefits and deferred acquisition costs (and balances amortized on a basis consistent with deferred acquisition costs, either as required by this Topic or as a result of an accounting policy election) in the year of adoption:
   1. A disaggregated tabular rollforward of the ending balance of the reporting period before the transition date to the opening balance at the beginning of the earliest period presented (consistent with the disaggregated tabular rollforward required by paragraphs 944-30-50-2B(a) and 944-40-50-6(a)). If an insurance entity elects to apply the transition guidance on a retrospective basis as described in (e), the insurance entity shall further disaggregate the rollforward between the effects of the retrospective application and the modified retrospective application.
   2. Qualitative and quantitative information about transition adjustments related to:
      i. The opening balance of retained earnings
      ii. Accumulated other comprehensive income
      iii. Net premiums exceeding gross premiums
      iv. The establishment of a premium deficiency as required in Subtopic 944-60.

h. An insurance entity shall disclose the following information about market risk benefits:
   1. A disaggregated tabular rollforward of the ending balance of the reporting period before the transition date to the opening balance at the beginning of the earliest period presented (consistent with the

disaggregated tabular rollforward required by paragraph 944-40-50-7B(a))

2. Qualitative and quantitative information about transition adjustments related to the opening balance of retained earnings and accumulated other comprehensive income.

Implementation guidance: retrospective transition

i. As stated in (e), at the beginning of the earliest period presented (that is, the transition date) an insurance entity has the option to apply the guidance on the liability for future policy benefits for traditional and limited-payment contracts on a retrospective basis at the issue-date contract aggregation level to all contract groups for that issue date and all subsequent issue dates. An insurance entity applying the retrospective approach at the transition date shall:

   1. Recalculate the net premiums as of the contract issue date by considering actual historical experience and updated future cash flow assumptions, discounted using a rate based on an upper-medium-grade (low-credit-risk) fixed-income instrument yield at the contract issue date. That newly determined discount rate represents the interest accretion rate to be used over the life of the contract.
   2. Use the revised net premiums to measure the liability for future policy benefits as of the transition date.
   3. Record a cumulative catch-up adjustment to the opening balance of retained earnings as of the transition date equal to the difference between the carrying value of the liability for future policy benefits (adjusted for the removal of any related amounts in accumulated other comprehensive income) and the liability for the future policy benefits balance calculated using the updated net premiums.

j. Additionally, at the transition date, an insurance entity shall compare the liability for the future policy benefits balance using the interest accretion rate and the current discount rate (that is, the upper-medium-grade [low-credit-risk] fixed-income instrument yield as of the transition date). Any resulting difference in the liability for the future policy benefits balance shall be recorded to accumulated other comprehensive income.

Implementation guidance: carryover basis transition

k. An insurance entity may have implemented the transition guidance in (c) to all or some contracts in force on the basis of their carrying amounts (adjusted for the removal of any related amounts in accumulated other comprehensive income) at the transition date (that is, the carryover basis) and updated future assumptions. The transition date shall be considered the revised contract issue date for purposes of subsequent adjustments but not for purposes of contract grouping; the original contract issue date shall be used for purposes of contract grouping, and contracts from different original contract issue years shall not be grouped.

l. At the transition date, an insurance entity shall update future cash flow assumptions and calculate net premiums using the ratio of the present value of remaining expected benefits and expense amounts less the carryover basis to the present value of expected remaining gross premiums (see Example 7 beginning in paragraph 944-40-55-29P).

m. In determining the ratio of net premiums to gross premiums at the revised contract issue date, an insurance entity shall apply the discount rate assumption that was used to calculate the existing liability for future policy benefits (that is, the discount rate in effect immediately before the transition date shall be retained and used in subsequent reporting periods for the purpose of determining the ratio of net premiums to gross premiums and for the purpose of interest accretion). Additionally, at the transition date, an insurance entity shall compare the liability for the future policy benefits balance using the interest accretion rate and the current discount rate (that is, the upper-medium-grade [low-credit-risk] fixed-income instrument yield as of the transition date). Any resulting difference in the liability for the future policy benefits balance shall be recorded to accumulated other comprehensive income.

n. If the transition date adjustment related to updating cash flow assumptions is unfavorable because the expected net premiums exceed the expected gross premiums (that is, the present value of remaining expected benefits and expenses less the carryover basis exceeds the present value of expected gross premiums), an insurance entity shall:
    1. Adjust the liability for future policy benefits at the transition date for the removal of any related amounts in accumulated other comprehensive income
    2. Set net premiums equal to gross premiums
    3. Increase the liability for future policy benefits and, for **limited-payment contracts**, reduce the deferred profit liability balance to zero
    4. Recognize a corresponding adjustment to the opening balance of retained earnings
    5. Disclose information related to the adverse development that results in net premiums exceeding gross premiums (see paragraph 944-40-50-6(d)).

o. If the transition date adjustment related to updating cash flow assumptions is unfavorable but does not result in net premiums exceeding gross premiums, an insurance entity shall:
    1. Adjust the liability for future policy benefits at the transition date for the removal of any related amounts in accumulated other comprehensive income
    2. Not increase the liability for future policy benefits, except for limited-payment contracts, in which case any reduction to the deferred profit

liability shall be offset with a corresponding increase in the liability for future policy benefits

    3. Not recognize an adjustment to the opening balance of retained earnings
    4. Apply the newly determined ratio of net premiums to gross premiums as of the transition date, until assumptions are subsequently updated.

- p. If the transition date adjustment related to updating cash flow assumptions is favorable, an insurance entity shall:
    1. Adjust the liability for future policy benefits at the transition date for the removal of any related amounts in accumulated other comprehensive income
    2. Not decrease the liability for future policy benefits, except for limited-payment contracts, in which case any increase in the deferred profit liability shall be offset with a corresponding decrease in the liability for future policy benefits
    3. Not recognize an adjustment to the opening balance of retained earnings
    4. Apply the newly determined ratio of net premiums to gross premiums as of the transition date.

Amendments to Subtopic 944-50

15. Amend paragraph 944-50-25-5, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Policyholder Dividends

Recognition

Long-Duration Contracts

> Certain Long-Duration Participating Life Insurance Contracts

944-50-25-5 See paragraphs 944-40-25-30 and 944-40-35-22 through 35-23~~35-24~~ for guidance on accounting for **terminal dividends** as part of the liability for future policyholder benefits.

Amendments to Subtopic 944-60

16. Amend paragraphs 944-60-15-5, 944-60-25-7 through 25-8, 944-60-30-1 through 30-2, and 944-60-35-5 and add paragraph 944-60-50-2 and its related Subsection title, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Premium Deficiency and Loss Recognition

Scope and Scope Exceptions

Long-Duration Contracts

> Instruments

944-60-15-5 The guidance in the Long-Duration Contracts Subsections of this Subtopic applies to long-duration contracts, except for the liability for future policy benefits for traditional and limited-payment contracts subject to the guidance in paragraph 944-40-25-11~~including limited-payment and universal life-type contracts~~. Paragraph 944-30-35-63 specifies that the present value of future profits relating to insurance (including traditional and limited-payment) and reinsurance contracts acquired is subject to premium deficiency testing in accordance with the provisions of this Subtopic (see paragraph 944-805-35-3). See the Long-Duration Contracts Subsection of Section 944-20-15 for a discussion of what constitutes a long-duration contract.

Recognition

Long-Duration Contracts

944-60-25-7 Original policy benefit assumptions for certain long-duration contracts ordinarily continue to be used during the periods in which the **liability for future policy benefits** is accrued under Subtopic 944-40. However, actual experience with respect to investment yields, **mortality**, **morbidity**, terminations, or expenses may indicate that **existing contract** liabilities, together with the present value of future gross premiums, will not be sufficient to do both of the following:

a. Cover the present value of future benefits to be paid to or on behalf of policyholders and settlement costs~~and **maintenance costs**~~ relating to a block of long-duration contracts
b. Recover unamortized present value of future profits~~**acquisition costs**~~.

944-60-25-8 The premium deficiency shall be recognized by a charge to income and either of the following:

a. A reduction of unamortized present value of future profits~~acquisition costs~~
b. An increase in the liability for future policy benefits.

944-60-25-9 A premium deficiency, at a minimum, shall be recognized if the aggregate liability on an entire line of business is deficient. In some instances, the liability on a particular line of business may not be deficient in the aggregate, but circumstances may be such that profits would be recognized in early years and losses in later years. In those situations, the liability shall be increased by an amount necessary to offset losses that would be recognized in later years.

Initial Measurement

Long-Duration Contracts

944-60-30-1 If the conditions in paragraph 944-60-25-7 exist, an entity shall determine the **liability for future policy benefits** using revised assumptions as the remainder of the present value of future payments for benefits and related settlement costs~~and~~ ~~**maintenance costs**~~ (determined using revised assumptions based on actual and anticipated experience) minus the present value of future gross premiums (also determined using revised assumptions based on actual and anticipated experience).

944-60-30-2 A premium deficiency shall then be determined as the liability measured in ~~the preceding~~ paragraph 944-60-30-1 minus the liability for future policy benefits at the valuation date, reduced by the unamortized present value of future profits~~**acquisition costs**~~.

Subsequent Measurement

Long-Duration Contracts

944-60-35-5 If a premium deficiency does occur, future changes in the liability shall be based on the revised assumptions. No loss shall be reported currently if it results in creating future income. The **liability for future policy benefits** using revised assumptions based on actual and anticipated experience shall be estimated periodically for comparison with the **{remove glossary link}liability for future policy benefits{remove glossary link}** (reduced by the unamortized present value of future profits~~**acquisition costs**~~) at the valuation date.

944-60-35-6 The guidance in this Subsection shall not be applied to **investment contracts** (see the Investment Contracts Subsections of Subtopic 944-825). Such loss recognition is not permitted.

Disclosure

Long-Duration Contracts

944-60-50-2 For annual reporting periods, and to the extent required by Topic 270 on interim reporting, an insurance entity shall disclose the following:

a. The amount of a liability that is established as a result of a premium deficiency and loss recognition testing determined in accordance with paragraphs 944-60-25-7 through 25-9 and a description of the factors that led to the establishment of the liability

b. Information about the methodology used when performing premium deficiency testing in accordance with paragraphs 944-60-25-7 through 25-9
c. Whether the entity considered anticipated investment income when performing premium deficiency testing in accordance with paragraphs 944-60-25-7 through 25-9 and, if so, what that assumption was.

Amendments to Subtopic 944-80

17. Amend paragraphs 944-80-25-3 and 944-80-50-1 and add paragraphs 944-80-50-2 and 944-80-55-17 through 55-21 and their related headings, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Separate Accounts

Recognition

> Overall

944-80-25-3 All of the following guidance applies if a separate account arrangement meets all of the conditions in ~~the preceding~~ paragraph 944-80-25-2:

a. The portion of separate account assets representing contract holder funds shall be reported in the insurance entity's financial statements as a summary total, with an equivalent summary total reported for related liabilities.
b. Any liabilities related to minimum guarantees (including **market risk benefits**) and insurance benefit liabilities under the contracts in excess of the **fair value** of separate account assets representing contract holder funds shall be recognized as general account liabilities.
c. Contract fees and assessments shall be reported in accordance with paragraph 944-605-25-5.
d. For the purpose of evaluating the retention of specialized accounting for investments in consolidation as described in paragraph 810-10-25-15, a separate account arrangement shall be considered a subsidiary. An insurer is not required to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account.
e. Except as described in paragraph (f), the insurer shall not do either of the following when assessing whether the insurer is required to consolidate an investment held by a separate account:

1. Consider any separate account interests held for the benefit of policy holders to be the insurer's interests
2. Combine any separate account interests held for the benefit of policy holders with the insurer's general account interest in the same investment.

f. Separate account interests held for the benefit of a related party policy holder shall be combined with the insurer's general account interest when the Variable Interest Entities Subsections of Subtopic 810-10 require the consideration of related parties. For this purpose, a related party includes any party identified in paragraph 810-10-25-43 other than:
   1. An employee of the decision maker or service provider (and its other related parties), except if the employee is used in an effort to circumvent the provisions of Subtopic 810-10
   2. An employee benefit plan of the decision maker or service provider (and its other related parties), except if the employee benefit plan is used in an effort to circumvent the provisions of Subtopic 810-10.

Disclosure

944-80-50-1 The following information shall be disclosed in the financial statements of the insurance entity:

a. The general nature of the contracts reported in separate accounts, including the extent and terms of minimum guarantees (including **market risk benefits**)
b. The basis of presentation for both of the following:
   1. **Separate account** assets and liabilities
   2. Related separate account activity.
c. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~A description of the liability valuation methods and assumptions used in estimating the liabilities for additional insurance benefits and minimum guarantees~~
d. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~All of the following amounts related to minimum guarantees:~~
   ~~1. The separate account liability balances subject to various types of benefits, for example:~~
      ~~a. **Guaranteed minimum death benefit**~~
      ~~b. **Guaranteed minimum income benefit**~~
      ~~c. **Guaranteed minimum accumulation benefit**.~~
   ~~2. Disclosures within the categories of benefits identified in (d)(1) for the types of guarantees provided may also be appropriate, for example, all of the following:~~
      ~~a. Return of net deposit~~
      ~~b. Return of net deposits accrued at a stated rate~~
      ~~c. Return of highest anniversary value.~~

~~3. The amount of liability reported for additional insurance benefits, annuitization benefits and other minimum guarantees, by type of benefit, for the most recent balance sheet date~~

~~4. The incurred and paid amounts related to (d)(3) for all periods presented~~

~~5. For contracts for which an additional liability is disclosed in (d)(3), the **net amount at risk** and weighted average attained age of contract holders.~~

e. The aggregate **fair value** of assets, by major investment asset category, supporting separate accounts ~~with additional insurance benefits and minimum investment return guarantees~~ as of each date for which a statement of financial position is presented

f. The amount of gains and losses recognized on assets transferred to separate accounts for the periods presented.

944-80-50-2 For annual and interim reporting periods, an insurance entity shall disclose the following information about separate account liabilities described in paragraph 944-80-25-2:

a. A year-to-date disaggregated tabular rollforward of the beginning balance to the ending balance disaggregated in accordance with paragraph 944-40-50-5A

b. For each separate account liability rollforward presented, the related **cash surrender values**

c. A reconciliation of the separate account liability rollforwards to the aggregated ending carrying amount of the liability in the statement of financial position.

Implementation Guidance and Illustrations

> Illustrations

> > Example 3: Fair Value of Assets Held in Separate Accounts

944-80-55-17 ~~Account balances of contracts with guarantees were invested in variable separate accounts as follows.~~The aggregate fair value of assets, by major investment asset category, supporting separate accounts follows.

Asset Type	***December 31, 20X1***	***December 31, 20X2***
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$	$
Obligations of states of the United States and political subdivisions of the states		
Corporate debt securities:		
—Investment grade		
—Noninvestment grade		
Foreign debt securities		
Mortgage-backed securities		
Equity securities (including mutual funds) [(a)]		
Real estate		
Mortgage loans		
Derivative financial instruments		
Cash and cash equivalents		
Total	$ X,XXX,XXX	$ X,XXX,XXX

(a) The insurance entity may want to consider disclosing mutual funds by investment objective or other meaningful groupings that are useful in understanding the nature of the guarantee risk.

[Content amended as shown and moved from paragraph 944-20-55-15]

> > Example 4: Information about Separate Account Liabilities

944-80-55-18 This Example illustrates the separate account liability information that an insurance entity should disclose to meet the requirements in paragraph 944-80-50-2.

Note X: Separate Account Liability

The balances of and changes in separate account liabilities follow.

[For ease of readability, the new illustration is not underlined.]

	December 31,							
	20X2				20X1			
	Variable Universal Life		Variable Annuities		Variable Universal Life		Variable Annuities	
Balance, beginning of year	$	BBB	$	AAA	$	XXX	$	XXX
Premiums and deposits		XXX		XXX		XXX		XXX
Policy charges		(XXX)		(XXX)		(XXX)		(XXX)
Surrenders and withdrawals		(XXX)		(XXX)		(XXX)		(XXX)
Benefit payments		(XXX)		(XXX)		(XXX)		(XXX)
Investment performance		XXX		XXX		XXX		XXX
Net transfers from (to) general account		XXX		XXX		XXX		XXX
Other charges		(XXX)		(XXX)		(XXX)		(XXX)
Balance, end of year	$	DDD	$	CCC	$	BBB	$	AAA
Cash surrender value [(a)]	$	XXX	$	XXX	$	XXX	$	XXX

(a) Cash surrender value represents the amount of the contract holder's account balances distributable at the balance sheet date less certain surrender charges.

The reconciliation of separate account liabilities to the separate account liability balance in the consolidated statement of financial position follows.

	December 31,			
	20X2		20X1	
Variable universal life	$	DDD	$	BBB
Variable annuity		CCC		AAA
Other		XXX		XXX
Total	$	XXX	$	XXX

> > Example 5~~Example 4~~: Deferred Variable Annuity

944-80-55-19 This Example illustrates a deferred variable annuity that provides the contract holder with a number of investment alternatives. The contract holder deposits $100,000 in a deferred variable annuity that has no front-end load. The contract holder directs the allocation of the deposit to the following: aggressive growth equity fund, $25,000; high-yield corporate bond fund, $25,000; 5-year guaranteed interest separate account, $25,000; and general account, $25,000. **[Content amended as shown and moved from paragraph 944-20-55-24]**

944-80-55-20 Assets representing the contract holder’s funds in the aggressive growth equity fund and high-yield corporate bond fund separate accounts satisfy all the criteria of paragraphs 944-80-25-2 through 25-3, 944-80-30-1, 944-80-35-2, and 944-80-45-2 through 45-3. The allocation to the guaranteed interest separate account does not satisfy the criterion in paragraph 944-80-25-2 for separate account treatment. Therefore, assets representing the contract holder’s funds in the guaranteed interest separate account will be presented in the insurance entity's financial statements integrated with general account assets and liabilities. This reporting is appropriate even in those instances where the separate account arrangements with those contracts have been approved by regulatory authorities as separate account contracts. **[Content moved from paragraph 944-20-55-25]**

944-80-55-21 The guaranteed interest separate account allocations are often referred to as spread products, where the insurer bears the investment risk and its profits are derived primarily from the excess of investment performance over net amounts credited to the contract holder. Amounts related to this contract that are directed to the general account option will be shown within general account balances. **[Content moved from paragraph 944-20-55-26]**

Amendments to Subtopic 944-605

18. Supersede paragraphs 944-605-25-8 and 944-605-25-11, amend paragraphs 944-605-30-1 through 30-2 and 944-605-35-1 through 35-1A and their related heading, and add paragraphs 944-605-30-2A and its related heading and 944-605-35-1B through 35-1C, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Revenue Recognition

Recognition

Long-Duration Contracts

> Universal Life-Type Contracts

> > Contracts with Death or Other Insurance Benefit Features

944-605-25-8 Paragraph superseded by Accounting Standards Update No. 2018-12.~~If the amounts assessed against the contract holder each period for the insurance benefit feature of an insurance contract are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function, a liability for unearned revenue shall be recognized in addition to the account balance.~~ **[Content amended and moved to paragraph 944-40-25-27A]**

944-605-25-11 Paragraph superseded by Accounting Standards Update No. 2018-12.~~An increase during a period in an unearned revenue liability shall be excluded from the amounts assessed against the contract holder's account balance for that period and a decrease in an unearned revenue liability during a period shall be included with the assessments for that period.~~ **[Content amended and moved to paragraph 944-40-30-22A]**

Initial Measurement

Long-Duration Contracts

> Universal Life-Type Contracts with Death or Other Insurance Benefit Features

944-605-30-1 A liability for unearned revenue to be recognized under paragraphs 944-605-25-5~~944-605-25-8~~ through 25-7 and 944-605-25-9 through 25-10 shall be measured initially as the portion of such assessments that compensates the insurance entity for benefits to be provided in future periods.

944-605-30-2 For contracts in which assessments are collected over a period significantly shorter than the period for which the contract is subject to **mortality** and **morbidity** risks, the assessment would be considered a **front-end fee** and accounted for under paragraphs 944-605-25-6 through 25-7. The amounts amortized into~~recognized in~~ income shall be considered assessments for purposes of this paragraph.

> Limited-Payment Contracts

944-605-30-2A Assumptions used in measuring any **gross premium** deferred in accordance with paragraph 944-605-25-4A (that is, the deferred profit liability) shall be consistent with those used in estimating the **liability for future policy benefits** as described in paragraph 944-40-30-7.

Subsequent Measurement

Long-Duration Contracts

> Limited-Payment~~Limited-Pay~~ Contracts

944-605-35-1 Any **gross premium** deferred in accordance with paragraph 944-605-25-4A (that is, the deferred profit liability) shall be recognized in income in a constant relationship with insurance **in force** (if accounting for life insurance contracts) or with the amount of expected future benefit payments (if accounting for annuity contracts).

944-605-35-1A The deferred profit liability shall be amortized in relation to the discounted amount of the insurance in force or expected future benefit payments, discounted as described in paragraph 944-40-30-9, and interest shall accrue to the unamortized balance. The use of interest in the amortization is consistent with the determination of the deferred profit using discounting.

944-605-35-1B Assumptions shall be updated in subsequent accounting periods to determine changes in the deferred profit liability, contemporaneously with the updating of assumptions for the corresponding **liability for future policy benefits** (see paragraph 944-40-35-5). Cash flow assumptions shall be reviewed—and if there is a change, updated—on an annual basis, at the same time every year. Cash flow assumptions shall be updated in interim reporting periods if evidence suggests that earlier cash flow assumptions should be revised. The interest accretion rate shall remain the original discount rate used at contract issue date.

944-605-35-1C A related charge or credit to net income for the current reporting period as a result of updating cash flow assumptions at the level of aggregation at which reserves are calculated shall be determined as follows:

a. Cash flow assumptions used to calculate the deferred profit liability at contract issuance shall be updated in subsequent periods using actual historical experience and updated future cash flow assumptions.
b. The recalculated deferred profit liability as of the contract issue date shall be subsequently amortized in accordance with paragraph 944-605-35-1A to derive the revised deferred profit liability estimate as of the beginning of the current reporting period.
c. The revised deferred profit liability estimate calculated in (b) shall be compared with the carrying amount of the deferred profit liability as of the beginning of the current reporting period to determine the change in estimate adjustment to be recognized in net income for the current reporting period (see paragraph 944-40-45-4).

Amendments to Subtopic 944-805

19. Amend paragraphs 944-805-35-3, 944-805-50-3, 944-805-55-3, and 944-805-55-6 through 55-11 and supersede paragraphs 944-805-55-12 through 55-13, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Business Combinations

Subsequent Measurement

> Insurance and Reinsurance Contracts Acquired

944-805-35-3 For certain long-duration contracts such as ~~most~~ traditional life insurance contracts, using a basis consistent with the measurement of the liability would be similar to the guidance provided in paragraph 944-30-35-3, which requires that deferred **acquisition costs** be amortized using methods that include ~~the same~~ assumptions consistent with those used in estimating the **liability for future policy benefits**, including subsequent revisions to those assumptions. Also, paragraph 944-30-35-63 specifies that the present value of future profits is subject to premium deficiency testing in accordance with the provisions of Subtopic 944-60.

Disclosure

Demutualizations

944-805-50-2 An insurance entity shall disclose all of the following:

a. The nature and terms of a **demutualization** or formation of a mutual insurance holding entity
b. The basis of presentation and terms of operation of the **closed block**
c. A general description of all of the following:
    1. The method of emergence of earnings from the closed block
    2. Presentation of assets and liabilities of the closed block
    3. The policyholder dividend obligation.

944-805-50-3 An insurance entity that has formed a closed block shall disclose both of the following:

a. A general description of the closed block, including all of the following:
    1. The purpose of the closed block
    2. The types of insurance policies included
    3. The nature of the cash flows that increase and decrease the amount of closed block assets and liabilities
    4. An indication of the continuing responsibility of the insurance entity to support the payment of contractual benefits<u>, including the results of premium sufficiency or deficiency determined in accordance with paragraphs 944-60-25-7 through 25-9</u>
    5. The nature of expenses charged to the closed block operations.
b. Summarized financial data of the closed block as of, or for periods ending on the date of, the financial statements presented, which shall include, at a minimum, all of the following:
    1. The carrying amounts for the major types of invested assets of the closed block
    2. Future policy benefits and policyholders' account balances
    3. Policyholder dividend obligation
    4. Premiums
    5. Net investment income
    6. Realized investment gains and losses
    7. Policyholder benefits
    8. Policyholder dividends
    9. The amount of maximum future earnings remaining to inure to the benefit of stockholders from the assets and liabilities of the closed block
    10. An analysis of the changes in the policyholder dividend obligation.

Example 2 (see paragraph 944-805-55-3) illustrates the application of these disclosure requirements.

944-805-50-4 Disclosures that typically would be required by the preceding paragraph for the various specific elements included in the closed block need not be made separately for the closed block if the nature of the information for the closed block would not differ significantly from that already included for the reporting entity as a whole. For example, it is not necessary to show a separate schedule of contractual maturities of closed block fixed maturity securities if the relative composition of contractual maturities is similar to those of the reporting entity taken as a whole. However, if the relative maturities of the closed block fixed maturities securities differ from those of the reporting entity taken as a whole, separate disclosures shall be made.

Implementation Guidance and Illustrations

Demutualizations

> Illustrations

> > Example 2: Disclosure of a Closed Block

944-805-55-3 This Example illustrates one application of the disclosure requirements of the Demutualizations Subsection of Section 944-805-50 for a single hypothetical insurance entity, referred to as ABC Life Insurance Entity. ABC Life Insurance Entity would make the following disclosures.

> At the effective date (January XX, 20X1) of the Plan of Demutualization, eligible policyholders received, in the aggregate, approximately $XX million of cash, $XX million of policy credits, and XX million shares of common stock of ABC Holding Entity in exchange for their membership interests in ABC Life Insurance Entity. The demutualization was accounted for as a reorganization. Accordingly, ABC Life Insurance Entity's retained earnings at the Plan Effective Date (net of the aforementioned cash payments and policy credits, which were charged directly to retained earnings) were reclassified to common stock and capital in excess of par.
>
> As of January XX, 20X1, ABC Life Insurance Entity established a closed block for the benefit of certain classes of individual participating policies for which ABC Life Insurance Entity had a dividend scale payable in 20X0 and that were in force on January XX, 20X1. Assets were allocated to the closed block in an amount that, together with anticipated revenues from policies included in the closed block, was reasonably expected to be sufficient to support such business, including provision for payment of benefits, certain expenses, and taxes, and for continuation of dividend scales payable in 20X0, assuming experience underlying such scales continues. Assets allocated to the closed block inure solely to the benefit of the holders of the policies included in the closed block and will not revert to the benefit of stockholders of ABC Life Insurance Entity. No reallocation, transfer, borrowing, or lending of assets can be made between the closed block and other portions of ABC Life Insurance

Entity's general account, any of its separate accounts, or any affiliate of ABC Life Insurance Entity without the approval of the Z State Insurance Department.

If, over time, the aggregate performance of the closed block assets and policies is better than was assumed in funding the closed block, dividends to policyholders will be increased. If, over time, the aggregate performance of the closed block assets and policies is less favorable than was assumed in the funding, dividends to policyholders could be reduced.

The assets and liabilities allocated to the closed block are recognized~~recorded~~ in ABC Life Insurance Entity's financial statements on the same basis as other similar assets and liabilities. The carrying amount of closed block liabilities in excess of the carrying amount of closed block assets at the date of demutualization (adjusted to eliminate the effect of related amounts in accumulated other comprehensive income) represents the maximum future earnings from the assets and liabilities designated to the closed block that can be recognized in income over the period the policies in the closed block remain in force. ABC Life Insurance Entity has developed an actuarial calculation of the timing of such maximum future stockholder earnings, and this is the basis of the policyholder dividend obligation.

If actual cumulative earnings are greater than expected cumulative earnings, only expected earnings will be recognized in income. Actual cumulative earnings in excess of expected cumulative earnings represents undistributed accumulated earnings attributable to policyholders, which are recognized~~recorded~~ as a policyholder dividend obligation because the excess will be paid to closed block policyholders as an additional policyholder dividend unless otherwise offset by future performance of the closed block that is less favorable than originally expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in income.

The principal cash flow items that affect the amount of closed block assets and liabilities are premiums, net investment income, purchases and sales of investments, policyholders' benefits, policyholder dividends, premium taxes, and income taxes. The principal income and expense items excluded from the closed block are management and maintenance expenses, commissions and net investment income, and realized investment gains and losses of investment assets outside the closed block that support the closed block business~~, all of which enter into the determination of total gross margins of closed block polices for the purpose of the amortization of deferred acquisition costs~~. The amounts shown in the following tables for assets, liabilities, revenues, and expenses of the closed block are those that enter into the determination of amounts that are to be paid to policyholders.

> > Example 3: Closed Block Accounting

944-805-55-6 This Example illustrates the accounting under the Demutualizations Subsections of this Subtopic for closed block business (meaning those assets and liabilities both inside and outside of the closed block that relate to or support the closed block policies) after the demutualization date. This Example illustrates the computations involved in ~~all of~~ the following:

a. Determining the amount of the policyholder dividend obligation
b. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Deriving estimated gross margins for purposes of amortizing deferred acquisition costs~~
c. Subparagraph superseded by Accounting Standards Update No. 2018-12.~~Revising estimated gross margins as actual experience emerges.~~

944-805-55-7 For simplicity, this Example assumes the closed block has not been funded for income taxes. In practice, the closed block may or may not be funded for income taxes. If the closed block is funded for income taxes, the actuarial calculation would be constructed on a post-tax basis. However, for the purpose of determining the policyholder dividend obligation~~ and estimated gross margins~~, pretax amounts should be used. Generally, this would be accomplished by converting post-tax actuarial calculation values to corresponding pretax values for purposes of determining~~ estimated gross margins and~~ the policyholder dividend obligation. If the closed block is funded for income taxes, a change in income tax rates would result in an experience gain or loss that would affect closed block cash flows~~ and, therefore, estimated gross margins and amortization of deferred acquisition costs~~.

944-805-55-8 ~~The table in paragraph 944-30-55-8 illustrates the computation of estimated gross margins. That table illustrates the projection of the estimated gross margins used in this Example as the projection of estimated gross margins of the closed block business.~~ The closed block business is assumed to be written in Year 1, with demutualization occurring at the end of Year 5. Present values are assumed at ~~an earned~~a discount rate of 8.5 percent.

944-805-55-9 ~~The table in the following paragraph illustrates the contribution to the estimated gross margins in the table in paragraph 944-30-55-8 from the closed block (meaning, those assets and liabilities actually included in the closed block).~~ As discussed beginning in paragraph 944-805-25-10, the table in ~~the following~~ paragraph 944-805-55-10 is based on the actuarial calculation for the closed block developed at the demutualization date and represents the expected changes in the **net closed block liability** (closed block deficit) over the life of the closed block. The data in that table would be compared to actual results throughout the life of the closed block to determine the need for a policyholder dividend obligation~~ (as illustrated in note X)~~. That table assumes an increase in interest rates in Year 6 from 8.5 percent to 9.5 percent, which results in the board of directors increasing dividends in Years 7 through 10. ~~All other assumptions are held constant.~~ The table assumes demutualization begins in Year 6. For purposes of the Example, all other assumptions are held constant and expenses are assumed to be excluded from the closed block. ~~The shaded figures in table indicate differences from the Example shown in the table in paragraph 944-30-55-8.~~

944-805-55-10 Components of the illustrative closed block follow.

[For ease of readability, the new illustration is not underlined.]

Year	Premium	Interest on Closed Block Assets	Interest on Current Activity	Death Benefits Incurred	Surrender Benefits Incurred	(Increase) Decrease in Net Level Premium Reserve	Dividend Incurred	(Increase) Decrease in Policyholder Dividend Obligation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	$ 210,000	$ -	$ 17,850	$ (9,000)	$ -	$ (126,103)	$ (18,857)	$ -
2	184,611	7,231	15,692	(10,549)	-	(109,116)	(21,399)	-
3	169,621	7,846	14,418	(13,731)	(7,148)	(93,669)	(24,230)	-
4	155,763	8,512	13,240	(14,835)	(14,984)	(79,754)	(26,574)	-
5	142,990	9,236	12,154	(15,661)	(21,760)	(67,117)	(28,509)	-
6	131,222	11,200	12,466	(15,622)	(17,237)	(73,236)	(30,043)	(2,491)
7	124,333	17,839	10,568	(16,578)	(20,989)	(66,499)	(33,061)	549
8	117,768	24,819	10,010	(16,824)	(24,427)	(60,005)	(35,127)	595
9	111,526	31,298	9,480	(17,526)	(27,566)	(53,706)	(36,990)	646
10	105,582	37,266	8,974	(18,603)	(30,406)	(47,485)	(38,675)	701
11–20	779,517	585,648	66,259	(311,112)	(398,831)	(162,077)	(424,092)	-
21–55	589,392	1,103,633	50,099	(1,187,632)	(686,079)	938,767	(669,668)	-
Total	$ 2,822,325	$ 1,844,528	$ 241,210	$ (1,647,673)	$ (1,249,427)	$ -	$ (1,387,225)	$ -

Notes:

(a) Gross premiums.

(b) Interest at 8.5 percent on the liability for future policy benefits at the end of the previous year.

(c) Interest at 8.5 percent on current-year cash flow. This illustration assumes that premiums are received and all expenses are incurred at the start of the year. This illustration assumes that death benefits, surrender benefits, and dividends are all at the end of the year.

(d) Death benefits not reduced by related liability for future policy benefits.

(e) Surrender benefits not reduced by related liability for future policy benefits.

(f) Represents the cumulative (increase) decrease in the liability for future policy benefits.

(g) Policyholder dividends for the year.

(h) Policyholder dividend obligation as of end of last year minus policyholder dividend obligation as of end of current year.

~~Year~~	~~Premium~~	~~Interest on Closed Block Assets~~	~~Interest Current Activity~~	~~Death Benefits Incurred~~	~~Surrender Benefits Incurred~~	~~(Increase) Decrease in Net Level Premium Reserve~~	~~Dividend Incurred~~	~~Estimated Gross Margin~~	~~(Increase) Decrease in Policyholder Dividend Obligation~~	~~Closed Block Initial Estimated Gross Margin~~
	~~(a)~~	~~(b)~~	~~(c)~~	~~(d)~~	~~(e)~~	~~(g)~~	~~(h)~~	~~(i)~~	~~(j)~~	~~(k)~~
~~1–5~~	~~n/a~~	~~n/a~~	~~n/a~~	~~n/a~~	~~n/a~~	~~(475,759)~~	~~n/a~~	~~n/a~~	~~n/a~~	~~n/a~~
~~6~~	~~$ 131,222~~	~~$ 11,200~~	~~$ 12,466~~	~~$ (15,622)~~	~~$ (17,237)~~	~~$ (73,236)~~	~~$ (30,043)~~	~~$ 18,750~~	~~$ (2,491)~~	~~$ 16,259~~
~~7~~	~~124,333~~	~~17,839~~	~~10,568~~	~~(16,578)~~	~~(20,989)~~	~~(66,499)~~	~~(33,061)~~	~~15,613~~	~~549~~	~~16,162~~
~~8~~	~~117,768~~	~~24,819~~	~~10,010~~	~~(16,824)~~	~~(24,427)~~	~~(60,005)~~	~~(35,127)~~	~~16,214~~	~~595~~	~~16,809~~
~~9~~	~~111,526~~	~~31,298~~	~~9,480~~	~~(17,526)~~	~~(27,566)~~	~~(53,706)~~	~~(36,990)~~	~~16,515~~	~~646~~	~~17,161~~
~~10~~	~~105,582~~	~~37,266~~	~~8,974~~	~~(18,603)~~	~~(30,406)~~	~~(47,485)~~	~~(38,675)~~	~~16,653~~	~~701~~	~~17,354~~
~~11–20~~	~~779,517~~	~~585,648~~	~~66,259~~	~~(311,112)~~	~~(398,831)~~	~~(162,077)~~	~~(424,092)~~	~~135,312~~	~~-~~	~~135,312~~
~~21–55~~	~~589,392~~	~~1,103,633~~	~~50,099~~	~~(1,187,632)~~	~~(686,079)~~	~~(938,767)~~	~~(669,668)~~	~~138,512~~	~~-~~	~~138,512~~
~~Total~~	~~$ 1,959,340~~	~~$ 1,811,703~~	~~$ 167,856~~	~~$ (1,583,897)~~	~~$ (1,205,535)~~	~~$ -~~	~~$ (1,267,656)~~	~~$ 357,569~~	~~$ -~~	~~$ 357,569~~

~~Notes:~~

~~(a) Gross premiums.~~

~~(b) Interest, at 8.5 percent earned rate, on net level premium reserve at the end of the previous year. The net level premium reserve is based on guaranteed mortality and the dividend fund interest rate.~~

~~(c) Interest, at the 8.5 percent earned rate, on current-year cash flow. This illustration assumes premiums are received, and all expenses incurred, at the start of the year. This illustration assumes death benefits, surrender benefits, and dividends are all at the end of the year.~~

~~(d) Death benefits, not reduced by related net level premium reserve.~~

~~(e) Surrender benefits, not reduced by related net level premium reserve.~~

~~(f) Recurring expenses not included in capitalized acquisition costs.~~

~~(g) (475,759) represents the cumulative (increase) decrease in net level premium reserve reported in Schedule 1, column (g) for years one to five~~

~~(h) Policyholder dividends for the year~~

~~(j) Policyholder dividend obligation as of end of last year minus policyholder dividend obligation as of end of current year.~~

~~(k) (i) + (j)~~

944-805-55-11 For purposes of the table in ~~the preceding~~ paragraph 944-805-55-10, the product of the closed block policyholder dividend obligation calculation ~~and the cumulative closed block estimated gross margins~~ follows.

Actual as of Measurement Date	$	18,750
– Initial Actuarial Calculation	$	16,259
= Policyholder Dividend Obligation at Measurement Date	$	2,491

944-805-55-12 Paragraph superseded by Accounting Standards Update No. 2018-12.~~The table in the following paragraph illustrates the closed block business estimated gross margins contribution associated with the assets and liabilities outside of the closed block. That table also shows the total estimated gross margins used to amortize deferred acquisition costs for the closed block business. Those estimated gross margins differ from those shown in the table in paragraph 944-30-55-8 based on the emergence of actual experience in Year 6 and the creation of the policyholder dividend obligation.~~

944-805-55-13 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Components of the illustrative open block follow.~~

~~Year~~	~~Interest on Open Block Assets~~	~~Interest on Current Activity~~	~~Recurring Expenses Incurred~~	~~Open Block Estimated Gross Margins~~	~~Closed Block Estimated Gross Margins~~	~~Total Estimated Gross Margins~~	~~Deferred Acquisition Costs Amortization~~
	~~(b)~~	~~(c)~~	~~(f)~~	~~(i)~~	~~(k)~~	~~(l)~~	~~(m)~~
~~1–5~~	~~n/a~~	~~n/a~~	~~n/a~~	~~n/a~~	~~n/a~~	~~$ 242,474~~	~~$ 63,336~~
~~6~~	~~$ 33,998~~	~~$ (1,122)~~	~~$ (11,810)~~	~~$ 21,066~~	~~$ 16,259~~	~~$ 37,324~~	~~$ 9,409~~
~~7~~	~~29,037~~	~~(951)~~	~~(11,190)~~	~~16,896~~	~~16,162~~	~~33,058~~	~~7,263~~
~~8~~	~~27,663~~	~~(901)~~	~~(10,599)~~	~~16,163~~	~~16,809~~	~~32,972~~	~~7,854~~
~~9~~	~~26,234~~	~~(853)~~	~~(10,037)~~	~~15,344~~	~~17,161~~	~~32,505~~	~~8,248~~
~~10~~	~~24,776~~	~~(807)~~	~~(9,502)~~	~~14,467~~	~~17,354~~	~~31,821~~	~~8,535~~
~~11–20~~	~~174,635~~	~~(5,963)~~	~~(70,157)~~	~~98,515~~	~~135,312~~	~~233,827~~	~~66,591~~
~~21–55~~	~~119,052~~	~~(4,510)~~	~~(53,041)~~	~~61,501~~	~~138,512~~	~~200,013~~	~~70,265~~
~~Total Year 6–55~~	~~$ 435,395~~	~~$ (15,107)~~	~~$ (176,336)~~	~~$ 243,957~~	~~$ 357,569~~	~~$ 601,520~~	~~$ 178,164~~
~~Grand Total~~						~~$ 843,994~~	~~$ 241,500~~

~~(l) (i) + (k)~~

~~(m) Deferred acquisition costs balance as of end of prior year minus deferred acquisition costs balance as of end of current year.~~

Amendments to Subtopic 944-815

20. Supersede paragraphs 944-815-25-4, 944-815-60-3, and 944-815-60-7 and amend paragraphs 944-815-25-5 and 944-815-60-6, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Derivatives and Hedging

Recognition

Long-Duration Contracts

> Traditional Variable Annuity Product Structures

944-815-25-4 Paragraph superseded by Accounting Standards Update No. 2018-12.~~Paragraph 815-15-55-55(a) states why a minimum death benefit component during the accumulation period is not an embedded derivative that warrants separate accounting under paragraph 815-15-25-1.~~

> Nontraditional Variable Annuity Contracts

944-815-25-5 The host contract in a nontraditional variable annuity contract would be considered the traditional variable annuity that, as described in paragraph 944-815-25-1, does not contain an embedded derivative that warrants separate accounting. Certain nontraditional features other than **market risk benefits** may~~Nontraditional features, such as a guaranteed investment return through a minimum accumulation benefit or a guaranteed account value floor, would~~ be considered embedded derivatives subject to the requirements of Subtopic 815-15. ~~The economic characteristics and risks of the investment guarantee and those of the traditional variable annuity contract typically would not be considered to be clearly and closely related.~~

Relationships

Long-Duration Contracts

> Derivatives and Hedging

944-815-60-3 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For guidance on equity-indexed life insurance contracts that combine term life insurance coverage with an investment feature, similar to universal life contracts, see paragraphs 815-15-55-73 through 55-76.~~

944-815-60-6 For guidance on ~~four~~ common annuity payment alternatives, see paragraph 815-15-55-58~~paragraphs 815-15-55-57 through 55-61~~.

944-815-60-7 Paragraph superseded by Accounting Standards Update No. 2018-12.~~For guidance on equity-indexed annuity products, see paragraphs 815-15-55-62 through 55-72. Example 14 (see paragraphs 815-15-55-227 through 55-238) provides an illustration of equity-indexed annuity products.~~

Amendments to Subtopic 944-825

21. Amend paragraph 944-825-45-1, with a link to transition paragraph 944-40-65-2, as follows:

Financial Services—Insurance—Financial Instruments

Other Presentation Matters

> Investment Contracts

944-825-45-1 Deferred **acquisition costs** related to **investment contracts** shall be reported as an asset to be consistent with the guidance in Subtopic 944-30~~paragraph 944-30-45-2~~.

Amendments to Subtopic 220-10

22. Amend paragraphs 220-10-45-10A and 220-10-55-15C, with a link to transition paragraph 944-40-65-2, as follows:

Income Statement—Reporting Comprehensive Income—Overall

Other Presentation Matters

> Reporting Comprehensive Income

> > Items within Other Comprehensive Income

220-10-45-10A Items of other comprehensive income include the following:

a. Foreign currency translation adjustments (see paragraph 830-30-45-12)
b. Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see paragraph 830-20-35-3(a))
c. Gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements (see paragraph 830-20-35-3(b))
d. Gains and losses on derivative instruments that are designated as, and qualify as, cash flow hedges (see paragraph 815-20-35-1(c))
dd. For derivatives that are designated in qualifying hedging relationships, the difference between changes in fair value of the excluded components and the initial value of the excluded components recognized in earnings under a systematic and rational method in accordance with paragraphs 815-20-25-83A and 815-35-35-5A
e. Unrealized **holding gains and losses** on available-for-sale debt securities (see paragraph 326-30-35-2)

f. Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category (see paragraph 320-10-35-10(c))
g. Subparagraph superseded by Accounting Standards Update No. 2016-13.
h. Subparagraph superseded by Accounting Standards Update No. 2016-13.
i. Gains or losses associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j))
j. Prior service costs or credits associated with pension or other postretirement benefits (see paragraph 715-20-50-1(j))
k. Transition assets or obligations associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j)).
l. Changes in fair value attributable to instrument-specific credit risk of liabilities for which the fair value option is elected (see paragraph 825-10-45-5).
m. The effect of changes in the discount rates used to measure traditional and limited-payment long-duration insurance contracts (see paragraph 944-40-35-6A(b)(1)).
n. The effect of changes in the fair value of a **market risk benefit** attributable to a change in the instrument-specific credit risk (see paragraph 944-40-35-8A).

Additional classifications or additional items within current classifications may result from future accounting standards.

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Presenting Accumulated Other Comprehensive Income

> > > Disclosure of Changes in Accumulated Other Comprehensive Income Balances

220-10-55-15C For life insurers, amounts reclassified out of accumulated other comprehensive income exclude changes in unrealized gains and losses on available-for-sale debt securities associated with direct adjustments made to ~~deferred acquisition costs, certain intangible assets, and~~ policy liabilities necessary to reflect these balances as if such unrealized gains and losses were realized.

Amendments to Subtopic 270-10

23. Amend paragraph 270-10-50-7, with a link to transition paragraph 944-40-65-2, as follows:

Interim Reporting—Overall

Disclosure

> Guidance Related to Disclosure of Other Topics at Interim Dates

270-10-50-7 The following may not represent all references to interim disclosure:

a. For business combinations and combinations accounted for by **not-for-profit entities**, see Sections 805-10-50, 805-20-50, 805-30-50, 805-740-50, and 958-805-50.
b. For compensation-related costs, see paragraphs 715-60-50-3 and 715-60-50-6.
c. For disclosures required for entities with oil- and gas-producing activities, see paragraph 932-270-50-1.
d. For disclosures related to prior interim periods of the current fiscal year, see paragraph 250-10-50-11.
e. For fair value requirements, see Section 820-10-50.
f. For guarantors, see Section 460-10-50.
g. For pensions and other postretirement benefits, see paragraphs 715-20-50-6 through 50-7.
h. For reportable segments, see paragraphs 280-10-50-39 and 280-10-55-16.
i. For suspended well costs and interim reporting, see Section 932-235-50.
j. For applicability of disclosure requirements related to risks and uncertainties, see paragraph 275-10-15-3.
k. For discontinued operations, see paragraphs 205-20-50-1 through 50-7.
l. For disposals of individually significant components of an entity, see paragraph 360-10-50-3A.
m. For insurance entities that account for short-duration contracts, see paragraphs 944-40-50-3 and 944-40-4E.
<u>n. For insurance entities that account for long-duration contracts, see paragraphs 944-30-50-2A through 50-2B, 944-40-50-6 through 50-7C, and 944-80-50-1 through 50-2.</u>

Amendments to Subtopic 350-30

24. Amend paragraph 350-30-15-4, with a link to transition paragraph 944-40-65-2, as follows:

Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill

Scope and Scope Exceptions

> Transactions

350-30-15-4 The guidance in this Subtopic does not apply to the following:

a. Subparagraph not used
b. Subparagraph superseded by Accounting Standards Update No. 2010-07
c. Except for certain disclosure requirements as noted in ~~the preceding~~ paragraph 350-30-15-3, capitalized software costs
d. Except for disclosures required by paragraph 944-805-50-1 (however, an insurance entity need not duplicate disclosures that also are required by paragraphs 944-30-50-2A through 50-2B), intangible~~Intangible~~ assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805.

Amendments to Subtopic 815-10

25. Amend paragraph 815-10-15-13, with a link to transition paragraph 944-40-65-2, as follows:

Derivatives and Hedging—Overall

Scope and Scope Exceptions

> Instruments

> > Instruments Not within Scope

815-10-15-13 Notwithstanding the conditions in paragraphs 815-10-15-83 through 15-139, the following contracts are not subject to the requirements of this Subtopic if specified criteria are met:

a. Regular-way security trades
b. Normal purchases and normal sales
c. Certain insurance contracts and **market risk benefits**
d. Certain financial guarantee contracts
e. Certain contracts that are not traded on an exchange
f. Derivative instruments that impede sales accounting
g. Investments in life insurance
h. Certain investment contracts
i. Certain loan commitments

j. Certain interest-only strips and principal-only strips
k. Certain contracts involving an entity's own equity
l. Leases
m. Residual value guarantees
n. **Registration payment arrangements**
o. Certain fixed-odds wagering contracts.

Amendments to Subtopic 815-15

26. Amend paragraphs 815-15-55-54 through 55-55, 815-15-55-58, 815-15-55-62, 815-15-55-67, 815-15-55-69, and 815-15-55-74 through 55-75 and supersede paragraphs 815-15-55-57 and 815-15-55-59 through 55-61, with a link to transition paragraph 944-40-65-2, as follows:

Derivatives and Hedging—Embedded Derivatives

Implementation Guidance and Illustrations

> Implementation Guidance

> > Applying the Bifurcation Criteria

> > > Otherwise Applying the Bifurcation Criteria

> > > > Variable Annuity Products in General

815-15-55-54 Variable annuity products are investment contracts as discussed in Subtopic 944-20. Similar to variable life insurance products, policyholders direct their investment account asset mix among a variety of mutual funds composed of equities, bonds, or both, and assume the risks and rewards of investment performance. The funds are generally maintained in separate accounts by the insurance entity. Contract terms generally provide that if the policyholder dies, the greater of the account market value or a minimum death benefit guarantee will be paid. The minimum death benefit guarantee is generally limited to a return of premium plus a minimum return (such as 3 or 4 percent); this life insurance feature represents the fundamental difference from the life insurance contracts that include significant (rather than minimal) levels of life insurance. Over time, these minimum death benefit guarantees have become increasingly sophisticated. The investment account may have various payment alternatives at the end of the accumulation period. One alternative is the right to purchase a life annuity at a fixed price determined at the initiation of the contract.

815-15-55-55 Variable annuity product structures as discussed in Topic 944 are generally not subject to the scope of this Subtopic ~~(except for payment options at the end of the accumulation period)~~, as follows:

a. Death benefit component. Paragraph 815-10-15-53(a) excludes a death benefit from the scope of Subtopic 815-10 because the payment of the death benefit is the result of an identifiable insurable event instead of changes in an underlying. Additionally, the death benefit may meet the criteria of a **market risk benefit**, which is excluded from the scope of this Topic. The death benefit in this example is limited to the floor guarantee of the investment account, calculated as the premiums paid into the investment account plus a guaranteed rate of return, less the account fair value. Topic 944 remains the applicable guidance for the insurance-related ~~liability~~ accounting.
b. Investment component. The policyholder directs certain premium investments in the investment account that includes equities, bonds, or both, which are held in separate accounts that are distinct from the insurance entity's~~insurer's~~ general account assets. This component is not considered a derivative instrument because of the unique attributes of traditional variable annuity contracts issued by insurance entities. Furthermore, any embedded derivatives within those investments shall not be separated from the host contract by the ~~insurer~~insurance entity because the separate account assets are already marked to fair value under Topic 944. In contrast, if the product were an equity-index-based interest annuity (rather than a traditional variable annuity), the investment component may~~would~~ contain an embedded derivative (the equity index-based derivative instrument) that meets all the requirements of paragraph 815-15-25-1 for separate accounting. Before concluding that the investment component contains an embedded derivative, the insurance entity should first evaluate whether the equity-index-based interest annuity contains a market risk benefit (see paragraph 944-40-25-25C).
c. Investment account surrender right at fair value. Because this right is exercised only at the fund fair value (without the ~~insuer's~~insurance entity's floor guarantee) and relates to a traditional variable annuity contract issued by an insurance entity, this right is not within the scope of Subtopic 815-10.
d. Payment alternatives at the end of the accumulation period. Payment alternatives that are market risk benefits accounted for under Topic 944 on insurance are not within the scope of this Topic~~are options subject to the requirements of Subtopic 815-10 if interest rates or other underlying variables affect the fair value~~.

815-15-55-56 The guidance in (b) and (c) in the preceding paragraph is an exception for traditional variable annuity contracts issued by insurance entities. In determining the accounting for other seemingly similar structures, it would be inappropriate to analogize to that guidance due to the unique attributes of traditional variable annuity contracts.

> > > > Payment Alternatives for Variable Annuity Contracts

815-15-55-57 Paragraph superseded by Accounting Standards Update No. 2018-12.~~There are various types of annuity payment options offered by insurance entities to policyholders. This guidance addresses four common payment alternatives. The first three are payment alternatives offered during the accumulation phase of the contract, while the fourth involves guaranteed minimum periodic annuity payments in the contract's~~ ~~**payout phase**~~.

815-15-55-58 During the accumulation phase of a deferred annuity contract, a guarantee of a minimum interest rate to be used in computing periodic annuity payments if and when a policyholder elects to annuitize does not require separate accounting under paragraph 815-15-25-1 because the criterion in paragraph 815-15-25-1(c) is not met. The embedded option does not meet the definition of a derivative instrument because it does not meet the net settlement criteria as discussed beginning in paragraph 815-10-15-99. Settlement of the option can be achieved only by an investment of the account balance in a payout annuity contract in lieu of electing an immediate payment of the account value. If an additional provision existed whereby the policyholder could withdraw all or a portion of its account balance during the **{add glossary link}**payout phase**{add glossary link}**, an embedded derivative would still not exist because the economic benefit of the guaranteed minimum interest rate would be obtainable only if an entity were to maintain the annuity contract through its specified maturity date. However, the embedded option may be considered a market risk benefit (see paragraph 944-40-25-25C).

815-15-55-59 Paragraph superseded by Accounting Standards Update No. 2018-12.~~A provision that guarantees a minimum account value that is available to annuitize if and when a policyholder elects to annuitize fails to meet the definition of a derivative instrument during the accumulation phase because it cannot be net settled. The benefit of the minimum account value is realized by the policyholder by annuitizing and receiving the economic benefit over the payout term, similar to the analysis of the guarantee of a minimum interest rate. However, if the policyholder is able to withdraw all or a portion of the guaranteed account balance during the payout (~~~~**annuitization**~~~~) period, or the payout (annuitization) period is set to an unrealistically short period such as one year, this is equivalent to net settlement, and the guarantee (or the portion of the guarantee that is withdrawable, if applicable) is an embedded derivative only during the accumulation period~~.

815-15-55-60 Paragraph superseded by Accounting Standards Update No. 2018-12.~~During the accumulation phase of a deferred variable annuity contract, a provision that guarantees a minimum level of periodic annuity payments during the payout phase if and when a policyholder elects to annuitize into a variable-payout annuity does not require separate accounting as an embedded derivative under paragraph 815-15-25-1. An embedded derivative does not exist during the accumulation phase of a deferred variable annuity contract because the policyholder cannot net settle the contract. The only way the policyholder can obtain the benefit of the floor payment guarantee is over the life of the variable-payout annuity. This guidance assumes that the contract is annuitized at its~~

~~contract value without any floor account value guarantee specified in the preceding paragraph.~~

815-15-55-61 <u>Paragraph superseded by Accounting Standards Update No. 2018-12.</u>~~During the payout phase of a variable-payout annuity, the contract may include a provision that guarantees a minimum level of periodic payments. (This type of provision may be found in contracts referred to as standalone immediate-payout annuities or in the payout phase of an existing annuity.) The accounting treatment for a contractual provision for guaranteed minimum periodic payments is dependent upon the payout option in the variable-payout annuity contract. For the period-certain variable-payout annuity, the guaranteed minimum periodic payments are, during the payout phase, an embedded derivative that is required to be separated under paragraph 815-15-25-1. This conclusion is based on the assessment that the guaranteed payment floor is not clearly and closely related to the host contract—a traditional variable-payout annuity contract. This is consistent with Section 944-20-25. However, a solely life-contingent variable-payout annuity contract with such features that meets the definition of an insurance contract under paragraph 944-20-15-18 through 15-19 would not be subject to the requirements of Subtopic 815-10 provided there are no withdrawal features. For a period-certain-plus-life-contingent variable-payout annuity contract, the embedded derivative related only to the period-certain guaranteed minimum periodic payments would be required to be separated under paragraph 815-15-25-1, whereas the embedded derivative related to the life-contingent guaranteed minimum periodic payments would not be separated under that paragraph. Separate accounting for the embedded derivative related only to the period-certain guaranteed minimum periodic payments would be required even if the period-certain-plus-life-contingent annuity, in its entirety, meets the definition of an insurance contract under paragraph 944-20-15-18 through 15-19 and has no withdrawal features.~~

> > > > Equity-Indexed Annuity Contracts

815-15-55-62 This Subtopic defines an **equity-indexed annuity** as a deferred fixed annuity contract with a guaranteed minimum interest rate plus a contingent return based on some internal or external equity index, such as the Standard & Poor's S&P 500 Index. The guaranteed contract value is generally designed to meet certain regulatory requirements such that the contract holder receives no less than 90 percent of the initial deposit, compounded annually at 3 percent, which establishes a floor value for the contract. Equity-indexed annuities typically have minimal mortality risk and are therefore classified as investment contracts under Topic 944. Equity-indexed annuities often do not have specified maturity dates; therefore, the contracts remain in the deferral (accumulation) phase until the customer either surrenders the contract or elects **{add glossary link}**annuitization**{add glossary link}**. Customers typically can surrender the contract at any point in time, at which time they receive their account value, as specified in the contract, less any applicable surrender charges. The account value is defined in the policy as generally the greater of the policyholder's initial investment plus the equity-indexed return or a guaranteed floor amount (calculated as the policyholder's initial investment plus a specified annual percentage return).

815-15-55-63 There are two basic designs for equity-indexed annuities:

a. The **periodic ratchet design**, where in the annual version, the customer receives the greater of the appreciation in the equity index during a series of one-year periods (ending on each policy anniversary date) or the guaranteed minimum fixed rate of return over that period
b. The **point-to-point design**, where the customer receives the greater of the appreciation in the equity index during a specified period (for example, five or seven years, starting on the policy issue date) or the guaranteed minimum fixed rate of return over that period.

815-15-55-64 For many products of either design, the contract has any of the following characteristics:

a. The contract holder receives only a portion of the appreciation in the S&P 500 Index (or other index, as applicable) during the specified period (a participation rate).
b. The contract has an upper limit on the amount of appreciation that will be credited during any period (a cap rate).

815-15-55-65 For the annual ratchet design, the prospective participation and cap rates for each one-year period are often at the discretion of the issuer, and may be reset on future policy anniversary dates, subject to contractual guarantees. Flexibility on the part of the issuer to establish new cap and participation rates, coupled with uncertainty around the customer's account value (which establishes the notional amount of the option) and strike price (which is determined by the level of the index on subsequent anniversary dates) make several of the terms of the forward-starting options unknown at the annuity contract's inception. However, those flexible terms can be viewed as a bundle of options.

815-15-55-66 Therefore, holders of equity-indexed annuities that are preparing financial statements shall separate the equity-indexed return portion of the contract, apply this Subtopic, including the guidance in the following paragraph through paragraph 815-15-55-72.

815-15-55-67 <u>Before evaluating whether an equity-indexed annuity contains an embedded derivative, an insurance entity should first evaluate whether the contract contains a market risk benefit (see paragraph 944-40-25-25C). Generally, the equity index feature represents a periodic crediting rate mechanism that affects the amounts credited to the contract holder's account balance, rather than representing a benefit in addition to the account balance that protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk. Periodic crediting rate mechanisms are required to be evaluated for possible bifurcation under this Topic. However, an equity-indexed annuity also may contain one or more market risk</u>

benefits (see paragraphs 944-40-55-29A through 55-29D). From an insurance entity's~~insurer's~~ perspective, the option component of an equity-indexed annuity that specifies a point-to-point design meets the definition of a derivative instrument and requires separate accounting under paragraph 815-15-25-1 unless a fair value election is made pursuant to paragraph 815-15-25-4. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. However, Section 815-15-25 does not apply to hybrid financial instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Subtopic 944-20, other than financial guarantees and investment contracts.)

815-15-55-68 This guidance also applies to the policyholder because the policyholder does not qualify for a scope exclusion.

815-15-55-69 For the periodic ratchet design product, the insurance entity~~insurer~~ has committed to issue a series of options on the index over the duration of the contract. All of those forward-starting options meet the definition of a derivative instrument and require separate accounting under paragraph 815-15-25-1 from the perspective of the insurance entity~~insurer~~ unless a fair value election is made pursuant to paragraph 815-15-25-4. Paragraph 815-15-25-7 requires that the embedded feature with multiple components be separately accounted for as one compound embedded derivative.

815-15-55-70 In valuing those options, there are three main components to be considered:

a. Future S&P 500 Index (or other index, as applicable) values will need to be estimated to determine both the future notional amounts at each ratchet date and the future strike prices of the future forward starting options.
b. Future annual cap and participation rates, which are often at the discretion of the contract issuer, subject to contractually specified minimums and maximums, will need to be estimated.
c. Noneconomic factors related to policyholder-driven developments such as policy surrenders or mortality.

815-15-55-71 Given the three components, the forward starting options should be valued using the expected future terms (that is, index values and cap and participation rates), but in no event should the value be less than the minimum amounts contractually agreed on in the contract. Expected terms represent management's estimates of cap and participation rates, rather than contractually guaranteed amounts. The estimated value reflects the notion that the contract provides for a level of equity-indexed return that can be estimated even when considering the issuer's options to adjust the policyholder's participation and cap rates. In subsequent periods when the terms of the forward-starting options become known, the actual terms should be substituted for the expected terms for purposes of valuation.

815-15-55-72 This guidance also applies to the policyholder (provided it prepares GAAP-based financial statements) because the contracts do not qualify for a scope exception.

> > > > Equity-Indexed Life Insurance Contracts

815-15-55-73 Equity-indexed life insurance contracts combine term life insurance coverage with an investment feature, similar to universal life contracts. Death benefit amounts are based on the amount selected by the policyholder plus the account value. Charges for the cost of insurance and administrative costs are assessed periodically against the account. The policyholder's account value, maintained in the insurance entity's general account (not a separate account), is based on the cumulative deposits credited with positive returns based on the S&P 500 Index or some other equity index. An essential component of the contract is that the cash surrender value is also linked to the index. Accordingly, the policy's cash surrender value is also linked to an equity index. The death benefit amount may also be dependent on the cumulative return on the index.

815-15-55-74 Equity-indexed life insurance contracts are accounted for as universal life insurance contracts under Topic 944. For those contracts, the customer's account value (the investment component of a universal life contract) is credited with a return indexed to an equity index (for example, the S&P 500) rather than an interest rate established by the insurance entity~~insurer~~, as is done with typical universal life contracts. The existence of the death benefit provision does not exclude the entire equity-indexed life insurance contract from being subject to Subtopic 815-10 for either the issuer or the policyholder because the policyholder can obtain an equity-linked return by exercising the surrender option before death. Before evaluating whether the equity-indexed life insurance contract contains an embedded derivative, an insurance entity should first evaluate whether the contract contains a market risk benefit (see paragraph 944-40-25-25C).

815-15-55-75 If the investment component of the equity-indexed life insurance contract does not contain a market risk benefit, then the~~The~~ investment component of the equity-indexed life insurance contract would contain an embedded derivative (the equity index-based derivative) that meets all of the requirements of paragraph 815-15-25-1 for separate accounting. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. However, Section 815-15-25 does not apply to hybrid instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Subtopic 944-20, other than financial guarantees and investment contracts.)

815-15-55-76 In contrast, if the contract contained an equity-indexed death benefit component that was over and above the cash surrender value that is payable to the policyholder upon surrender of the policy, that death benefit component would not meet the criterion in paragraph 815-15-25-1(c) for separate accounting. As a separate instrument, that death benefit component would not be a derivative instrument subject to the requirements of Subtopic 815-10 due to the paragraph

815-10-15-53 exclusion for benefits payable only upon death, as illustrated in paragraphs 815-15-55-55 through 55-56.

Amendments to Status Sections

27. Amend paragraph 220-10-00-1, by adding the following items to the table, as follows:

220-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Market Risk Benefit	Added	2018-12	08/15/2018
220-10-45-10A	Amended	2018-12	08/15/2018
220-10-55-15C	Amended	2018-12	08/15/2018

28. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
270-10-50-7	Amended	2018-12	08/15/2018

29. Amend paragraph 350-30-00-1, by adding the following item to the table, as follows:

350-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
350-30-15-4	Amended	2018-12	08/15/2018

30. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Market Risk Benefit	Added	2018-12	08/15/2018
815-10-15-13	Amended	2018-12	08/15/2018

31. Amend paragraph 815-15-00-1, by adding the following items to the table, as follows:

815-15-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Market Risk Benefit	Added	2018-12	08/15/2018
815-15-55-54	Amended	2018-12	08/15/2018
815-15-55-55	Amended	2018-12	08/15/2018
815-15-55-57	Superseded	2018-12	08/15/2018
815-15-55-58	Amended	2018-12	08/15/2018
815-15-55-59 through 55-61	Superseded	2018-12	08/15/2018
815-15-55-62	Amended	2018-12	08/15/2018
815-15-55-67	Amended	2018-12	08/15/2018
815-15-55-69	Amended	2018-12	08/15/2018
815-15-55-74	Amended	2018-12	08/15/2018
815-15-55-75	Amended	2018-12	08/15/2018

32. Amend paragraph 944-20-00-1, by adding the following items to the table, as follows:

944-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Guaranteed Minimum Income Benefit	Amended	2018-12	08/15/2018
Net Amount at Risk (Relating to Variable	Superseded	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
Annuity Contracts)			
944-20-05-23	Superseded	2018-12	08/15/2018
944-20-10-3	Amended	2018-12	08/15/2018
944-20-15-11	Amended	2018-12	08/15/2018
944-20-15-13	Amended	2018-12	08/15/2018
944-20-15-24	Amended	2018-12	08/15/2018
944-20-55-13	Amended	2018-12	08/15/2018
944-20-55-14	Amended	2018-12	08/15/2018
944-20-55-15 through 55-26	Superseded	2018-12	08/15/2018

33. Amend paragraph 944-30-00-1, by adding the following items to the table, as follows:

944-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Annual Policyholder Dividends	Superseded	2018-12	08/15/2018
Benefit Period	Superseded	2018-12	08/15/2018
Contract Rate	Superseded	2018-12	08/15/2018
Guaranteed Minimum Income Benefit	Amended	2018-12	08/15/2018
Gross Premium	Superseded	2018-12	08/15/2018
Investment Yield	Superseded	2018-12	08/15/2018
Market Risk Benefit	Added	2018-12	08/15/2018
Net Level Premium Reserve	Superseded	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
Net Premiums	Amended	2018-12	08/15/2018
944-30-15-6	Amended	2018-12	08/15/2018
944-30-25-1B	Amended	2018-12	08/15/2018
944-30-25-3	Amended	2018-12	08/15/2018
944-30-25-6	Amended	2018-12	08/15/2018
944-30-25-8	Amended	2018-12	08/15/2018
944-30-25-9	Amended	2018-12	08/15/2018
944-30-25-10	Superseded	2018-12	08/15/2018
944-30-30-2	Amended	2018-12	08/15/2018
944-30-35-3	Amended	2018-12	08/15/2018
944-30-35-3A	Amended	2018-12	08/15/2018
944-30-35-3B	Added	2018-12	08/15/2018
944-30-35-3C	Added	2018-12	08/15/2018
944-30-35-4 through 35-17	Superseded	2018-12	08/15/2018
944-30-35-18 through 35-20	Amended	2018-12	08/15/2018
944-30-35-21	Superseded	2018-12	08/15/2018
944-30-35-22	Superseded	2018-12	08/15/2018
944-30-35-36	Amended	2018-12	08/15/2018
944-30-35-41 through 35-45	Superseded	2018-12	08/15/2018
944-30-35-46 through 35-52	Amended	2018-12	08/15/2018
944-30-35-61	Amended	2018-12	08/15/2018
944-30-35-62	Superseded	2018-12	08/15/2018
944-30-35-63	Amended	2018-12	08/15/2018
944-30-35-64	Amended	2018-12	08/15/2018
944-30-40-3	Amended	2018-12	08/15/2018
944-30-50-2	Superseded	2018-12	08/15/2018
944-30-50-2A	Added	2018-12	08/15/2018
944-30-50-2B	Added	2018-12	08/15/2018
944-30-50-3	Superseded	2018-12	08/15/2018
944-30-50-4	Amended	2018-12	08/15/2018
944-30-55-2	Amended	2018-12	08/15/2018
944-30-55-3 through 55-6	Superseded	2018-12	08/15/2018
944-30-55-7	Amended	2018-12	08/15/2018
944-30-55-7A	Added	2018-12	08/15/2018
944-30-55-7B	Added	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
944-30-55-8 through 55-10	Superseded	2018-12	08/15/2018
944-30-55-11 through 55-14	Amended	2018-12	08/15/2018
944-30-55-15 through 55-32	Superseded	2018-12	08/15/2018
944-30-55-36	Amended	2018-12	08/15/2018
944-30-55-39	Amended	2018-12	08/15/2018
944-30-55-40	Amended	2018-12	08/15/2018
944-30-55-56	Amended	2018-12	08/15/2018
944-30-55-58	Amended	2018-12	08/15/2018
944-30-55-65	Amended	2018-12	08/15/2018
944-30-55-66	Amended	2018-12	08/15/2018
944-30-55-76	Amended	2018-12	08/15/2018

34. Amend paragraph 944-40-00-1, by adding the following items to the table, as follows:

944-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Annuitization	Added	2018-12	08/15/2018
Block of New Insurance Contracts	Superseded	2018-12	08/15/2018
Cash Surrender Value	Added	2018-12	08/15/2018
Contract Rate	Added	2018-12	08/15/2018
Guaranteed Minimum Accumulation Benefit	Added	2018-12	08/15/2018
Guaranteed Minimum Income Benefit	Added	2018-12	08/15/2018
Guaranteed Minimum	Added	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
Withdrawal Benefit			
Lock-In Concept	Superseded	2018-12	08/15/2018
Maintenance Costs	Added	2018-12	08/15/2018
Market Risk Benefit	Added	2018-12	08/15/2018
Minimum Guaranteed Death Benefit	Superseded	2018-12	08/15/2018
Net Amount at Risk (Relating to Variable Annuity Contracts)	Added	2018-12	08/15/2018
Net Premiums	Amended	2018-12	08/15/2018
Policy Account Balance	Added	2018-12	08/15/2018
Risk of Adverse Deviation	Amended	2018-12	08/15/2018
944-40-15-6	Amended	2018-12	08/15/2018
944-40-25-11	Amended	2018-12	08/15/2018
944-40-25-25	Amended	2018-12	08/15/2018
944-40-25-25A	Superseded	2018-12	08/15/2018
944-40-25-25B through 25-25D	Added	2018-12	08/15/2018
944-40-25-26	Amended	2018-12	08/15/2018
944-40-25-27	Amended	2018-12	08/15/2018
944-40-25-27A	Added	2018-12	08/15/2018
944-40-25-28	Superseded	2018-12	08/15/2018
944-40-25-40	Amended	2018-12	08/15/2018
944-40-25-41	Amended	2018-12	08/15/2018
944-40-30-6	Superseded	2018-12	08/15/2018
944-40-30-7	Amended	2018-12	08/15/2018
944-40-30-7A	Added	2018-12	08/15/2018
944-40-30-8	Amended	2018-12	08/15/2018
944-40-30-9	Amended	2018-12	08/15/2018
944-40-30-10	Superseded	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
944-40-30-13 through 30-16	Amended	2018-12	08/15/2018
944-40-30-19	Amended	2018-12	08/15/2018
944-40-30-19A	Superseded	2018-12	08/15/2018
944-40-30-19B through 30-19D	Added	2018-12	08/15/2018
944-40-30-20	Amended	2018-12	08/15/2018
944-40-30-22	Amended	2018-12	08/15/2018
944-40-30-22A	Added	2018-12	08/15/2018
944-40-30-24	Amended	2018-12	08/15/2018
944-40-30-25	Superseded	2018-12	08/15/2018
944-40-30-26	Amended	2018-12	08/15/2018
944-40-30-27	Amended	2018-12	08/15/2018
944-40-30-29	Amended	2018-12	08/15/2018
944-40-30-29A	Added	2018-12	08/15/2018
944-40-30-30	Amended	2018-12	08/15/2018
944-40-35-5	Amended	2018-12	08/15/2018
944-40-35-6	Amended	2018-12	08/15/2018
944-40-35-6A	Added	2018-12	08/15/2018
944-40-35-7	Superseded	2018-12	08/15/2018
944-40-35-7A	Added	2018-12	08/15/2018
944-40-35-7B	Added	2018-12	08/15/2018
944-40-35-8	Superseded	2018-12	08/15/2018
944-40-35-8A	Added	2018-12	08/15/2018
944-40-35-8B	Added	2018-12	08/15/2018
944-40-35-9	Amended	2018-12	08/15/2018
944-40-35-11	Superseded	2018-12	08/15/2018
944-40-35-12	Amended	2018-12	08/15/2018
944-40-35-15 through 35-18	Amended	2018-12	08/15/2018
944-40-35-20 through 35-23	Amended	2018-12	08/15/2018
944-40-35-24	Superseded	2018-12	08/15/2018
944-40-45-1	Amended	2018-12	08/15/2018
944-40-45-2	Amended	2018-12	08/15/2018
944-40-45-3	Added	2018-12	08/15/2018
944-40-45-4	Added	2018-12	08/15/2018
944-40-50-5A	Added	2018-12	08/15/2018
944-40-50-6	Amended	2018-12	08/15/2018
944-40-50-7	Amended	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
944-40-50-7A through 50-7C	Added	2018-12	08/15/2018
944-40-55-13A through 55-13K	Added	2018-12	08/15/2018
944-40-55-14 through 55-17	Amended	2018-12	08/15/2018
944-40-55-18	Superseded	2018-12	08/15/2018
944-40-55-20 through 55-23	Amended	2018-12	08/15/2018
944-40-55-24	Superseded	2018-12	08/15/2018
944-40-55-25 through 55-28	Amended	2018-12	08/15/2018
944-40-55-29	Superseded	2018-12	08/15/2018
944-40-55-29A through 55-29U	Added	2018-12	08/15/2018
944-40-65-2	Added	2018-12	08/15/2018

35. Amend paragraph 944-50-00-1, by adding the following item to the table, as follows:

944-50-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
944-50-25-5	Amended	2018-12	08/15/2018

36. Amend paragraph 944-60-00-1, by adding the following items to the table, as follows:

944-60-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
944-60-15-5	Amended	2018-12	08/15/2018
944-60-25-7	Amended	2018-12	08/15/2018
944-60-25-8	Amended	2018-12	08/15/2018
944-60-30-1	Amended	2018-12	08/15/2018
944-60-30-2	Amended	2018-12	08/15/2018
944-60-35-5	Amended	2018-12	08/15/2018

Paragraph	Action	Accounting Standards Update	Date
944-60-50-2	Added	2018-12	08/15/2018

37. Amend paragraph 944-80-00-1, by adding the following items to the table, as follows:

944-80-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Cash Surrender Value	Added	2018-12	08/15/2018
Guaranteed Minimum Accumulation Benefit	Superseded	2018-12	08/15/2018
Guaranteed Minimum Income Benefit	Superseded	2018-12	08/15/2018
Market Risk Benefit	Added	2018-12	08/15/2018
Minimum Guaranteed Death Benefit	Superseded	2018-12	08/15/2018
Net Amount at Risk (Relating to Variable Annuity Contracts)	Superseded	2018-12	08/15/2018
Policy Account Balance	Added	2018-12	08/15/2018
Surrender Charge	Added	2018-12	08/15/2018
944-80-25-3	Amended	2018-12	08/15/2018
944-80-50-1	Amended	2018-12	08/15/2018
944-80-50-2	Added	2018-12	08/15/2018
944-80-55-17 through 55-21	Added	2018-12	08/15/2018

38. Amend paragraph 944-605-00-1, by adding the following items to the table, as follows:

944-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Liability for Future Policy Benefits	Added	2018-12	08/15/2018
Net Premiums	Amended	2018-12	08/15/2018
944-605-25-8	Superseded	2018-12	08/15/2018
944-605-25-11	Superseded	2018-12	08/15/2018
944-605-30-1	Amended	2018-12	08/15/2018
944-605-30-2	Amended	2018-12	08/15/2018
944-605-30-2A	Added	2018-12	08/15/2018
944-605-35-1	Amended	2018-12	08/15/2018
944-605-35-1A	Amended	2018-12	08/15/2018
944-605-35-1B	Added	2018-12	08/15/2018
944-605-35-1C	Added	2018-12	08/15/2018

39. Amend paragraph 944-805-00-1, by adding the following items to the table, as follows:

944-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
944-805-35-3	Amended	2018-12	08/15/2018
944-805-50-3	Amended	2018-12	08/15/2018
944-805-55-3	Amended	2018-12	08/15/2018
944-805-55-6 through 55-11	Amended	2018-12	08/15/2018
944-805-55-12	Superseded	2018-12	08/15/2018
944-805-55-13	Superseded	2018-12	08/15/2018

40. Amend paragraph 944-815-00-1, by adding the following items to the table, as follows:

944-815-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Market Risk Benefit	Added	2018-12	08/15/2018
944-815-25-4	Superseded	2018-12	08/15/2018
944-815-25-5	Amended	2018-12	08/15/2018
944-815-60-3	Superseded	2018-12	08/15/2018
944-815-60-6	Amended	2018-12	08/15/2018
944-815-60-7	Superseded	2018-12	08/15/2018

41. Amend paragraph 944-825-00-1, by adding the following item to the table, as follows:

944-825-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
944-825-45-1	Amended	2018-12	08/15/2018

The amendments in this Update were adopted by the unanimous vote of the six members of the Financial Accounting Standards Board.

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
R. Harold Schroeder
Marc A. Siegel

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Benefits and Costs

BC2. The FASB's *Rules of Procedure* states:

> The mission of the FASB is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

BC3. In fulfilling that mission, the Board follows certain precepts, including the issuing of standards only when the expected benefits of the resulting information justify the expected costs. The Board strives to determine that a standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board's assessment of the costs and the benefits of applying new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC4. Paragraph OB2 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting, Chapter 1*, The Objective of General Purpose Financial Reporting, and *Chapter 3*, Qualitative Characteristics of Useful Financial Information, states the following:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit. [Footnote reference omitted]

BC5. The objective of the amendments in this Update, which is consistent with the objective of general purpose financial reporting, is to improve, simplify, and enhance the financial reporting requirements for long-duration contracts issued by insurance entities. Achieving this objective will result in providing financial statement users with more decision-useful information about the amount, timing, and uncertainty of cash flows related to long-duration contracts.

BC6. Over the course of the insurance project, the Board and staff conducted extensive outreach with users, preparers, and auditors of financial statements, as well as insurance industry trade groups and actuaries, to obtain information about specific deficiencies in existing GAAP accounting requirements for long-duration contracts and feedback on proposed changes to address those deficiencies. Those outreach activities included more than 150 individual meetings with users and more than 250 meetings with preparers, auditors, industry groups, and others; 13 group meetings with 60 users; 14 conferences with more than 150 users; more than 450 comment letters from users, preparers, auditors, industry groups, and others; 13 public roundtables hosted or attended by the Board or staff; and numerous additional discussions. Nonpublic insurance entities also were included as an integral part of the outreach efforts.

BC7. On the basis of the feedback obtained during the extensive due process including significant stakeholder input, the Board concluded that the amendments in this Update provide users with more relevant information about, and a more faithful representation of, long-duration contracts than existing GAAP. In particular, the amendments provide the following benefits:

a. A more current measure of traditional and limited-payment insurance contract liabilities updated for changes in cash flow assumptions and for discount rates. Specifically, financial statement users will benefit from insurance contract liabilities no longer being reported using out-of-date assumptions. Instead, a liability measured with updated assumptions provides more decision-useful information and more faithfully represents the insurance entity's obligation because it gives users a more current view of an insurance entity's expected future cash flows as opposed to a historical view that includes a provision for risk of adverse deviation.
b. A liability discount rate that uses observable market inputs and is independent of an insurance entity's expected return on its invested assets. Specifically, financial statement users will benefit from a more faithful representation of the time value of money for traditional and limited-payment long-duration contracts by measuring the liability for future policy benefits with a discount rate that reflects the characteristics of the liability rather than the invested assets supporting the liability. The amendments require future cash flows to be discounted using a current upper-medium grade (low-credit-risk) fixed-income instrument yield that maximizes the use of observable market inputs, independent of the return that an insurance entity expects to earn on its investment portfolio.

c. A more consistent and current, market-based measure of capital market risk benefits offered in variable annuities and other deposit or account balance products. Specifically, financial statement users will benefit from a consistent recognition and measurement model applied to contract features with similar risks and economics. Also, users will benefit from a current measurement model that maximizes the use of observable market inputs. Additionally, users will benefit from a greater understanding of the entity's exposure to capital market risk in those benefits and the extent to which an insurance entity hedges its capital market risk because both market risk benefits and the derivatives used to economically hedge the capital market risks in those benefits are measured on a consistent basis—that is, fair value. Financial statement preparers and auditors will benefit from being able to apply more simplified accounting guidance.
d. A simplified method for amortizing deferred acquisition costs. Specifically, financial statement users will benefit from a clearer, easier-to-understand amortization methodology. Also, users will have greater understanding of an insurance entity's investment and insurance risk and return independent from a deferred acquisition cost amortization pattern that fluctuates in relation to investment and insurance experience. Financial statement preparers will benefit from reduced costs because fewer resources need to be devoted to calculate, analyze, report, audit, and explain amortization results.
e. Enhanced disclosures. Specifically, a rollforward of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs will inform financial statement users about the components of changes in those asset and liability balances during the reporting period that they would not be able to otherwise discern by observing the total change in the asset or liability balances. The Board noted that users of financial statements indicated that these reconciliations would be one of the most useful disclosures because of the numerous factors that cause the changes in those balances, thus providing decision-useful information in assessing the performance and expected performance of an insurance entity. In addition, users will benefit from other information that is useful in their analyses, including measurement assumptions, changes in those assumptions, actual experience compared with expected experience, and crediting rate guarantees.

BC8. As with any new guidance, there will be costs to implement the amendments in this Update. The Board notes that the incremental ongoing costs are expected to be less significant compared with the costs of initially implementing the amendments. When making its decisions, the Board considered costs together with the overall benefits as well as the benefits and costs of specific requirements. The magnitude of the following costs will vary depending on several factors including the extent of an insurance entity's international operations and the diversity of its product offerings:

a. Initial costs to educate employees about how to apply the new requirements, as well as how to explain the effects of the changes on the insurance entity's financial statements to financial statement users
b. Initial costs to implement changes in or develop new systems, processes, and controls and ongoing costs related to maintaining or updating these systems, processes, and controls
c. Initial and ongoing fees paid to external auditors to audit the enhanced internal control processes and expanded disclosures.

BC9. The Board also considered other cost savings or cost mitigants. The Board considered that insurance entities currently perform experience studies and undertake periodic assumption reviews when performing premium deficiency testing. Upon adopting the amendments in this Update, instead of using those assumptions to perform premium deficiency testing (which is eliminated for traditional and limited-payment contracts under the amendments) insurance entities should use those updated assumptions to remeasure the liability for future policy benefits. In addition, certain nontraditional contract features are currently measured at fair value, and the Board noted that under the amendments, insurance entities can leverage existing valuation models and processes for those additional benefits that are measured at fair value as market risk benefits. The Board also noted that the amendments will result in cost savings related to the simplification of the amortization of deferred acquisition costs because fewer resources are needed to calculate, analyze, report, audit, and explain amortization or unlocking results.

BC10. The Board also considered that the amendments in this Update leverage many concepts in existing GAAP for insurance entities and, therefore, should be familiar to financial statement users, preparers, and auditors, thus facilitating the understanding and adoption of the amendments. For example, rather than introducing a new measurement model for traditional insurance contracts, the Board decided to retain the existing net premium reserving model. Additionally, rather than introduce a new method for updating insurance liability assumptions, the Board decided to extend the existing catch-up method of updating liability assumptions for universal life insurance contracts that considers the total cash flows over a contract's life—that is, historical actual experience and expected future cash flows.

BC11. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs.

Background Information

BC12. In October 2008, the Board undertook the insurance contracts project jointly with the International Accounting Standards Board (IASB) with an objective of developing common, high-quality guidance that would establish the principles that an entity would apply in the recognition, measurement, presentation, and disclosure of insurance contracts (including reinsurance). The objective was to provide guidance that would apply to all insurance contracts, whether or not those contracts were issued by an insurance entity. The Board deliberated the issues together with the IASB because insurance is a global industry with many insurance entities operating (mostly through subsidiaries) in numerous countries. In addition, the Board noted that there were several areas for potential improvement to existing GAAP and it identified several areas in which diversity exists in practice and viewed this as an opportunity to mitigate, if not eliminate, that diversity.

BC13. In July 2010, the IASB issued an Exposure Draft, *Insurance Contracts* (2010 IASB Exposure Draft). During the development of the 2010 IASB Exposure Draft, most of the discussions about the proposed insurance accounting approaches were held jointly with the FASB. Although the Boards reached common decisions in many areas, they reached different conclusions in others, chiefly in response to different conclusions about the costs and benefits of certain alternatives. The FASB sought additional input from its stakeholders before issuing an Exposure Draft, in large part to assess whether the proposed new amendments would represent a sufficient improvement to GAAP to justify issuing those proposed new amendments.

BC14. In September 2010, the FASB issued a Discussion Paper, *Preliminary Views on Insurance Contracts* (2010 Discussion Paper), to seek such input. The Board received 79 comment letters in response to the 2010 Discussion Paper and, in subsequent discussions, considered relevant recommendations and suggestions from those comment letters and the 253 comment letters on the 2010 IASB Exposure Draft.

BC15. In June 2013, after jointly deliberating issues arising from the 2010 Discussion Paper and the 2010 IASB Exposure Draft, the Board issued a proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* (2013 proposed Update), and the IASB issued a revised Exposure Draft, *Insurance Contracts* (revised 2013 IASB Exposure Draft).

BC16. The objectives of the amendments in the 2013 proposed Update were to (a) increase the decision usefulness of the information about a reporting entity's insurance liabilities, including the amount, timing, and uncertainty of cash flows related to those liabilities and the effect in the statement of comprehensive income, and (b) improve comparability, regardless of the type of entity issuing the insurance contract.

BC17. The amendments in the 2013 proposed Update would have applied to all entities that issue or reinsure contracts that met the definition of an insurance contract in that proposed Update, but not to contract holders (other than holders of reinsurance contracts). An insurance contract was defined in the 2013 proposed Update as:

> A contract under which one party (the issuing entity) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its designated beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder.

BC18. The amendments in the 2013 proposed Update would have required that an entity measure its insurance contracts under one of two measurement models, referred to as the building block approach (for most life, annuity, and long-term health contracts) and the premium allocation approach (for most property, liability, and short-term health contracts).

BC19. Contracts accounted for using the building block approach generally would have been measured with the following two components:

a. The present value of the unbiased probability-weighted mean of the future net cash flows (that is, expected value) expected in fulfilling the contract
b. A margin, net of qualifying acquisition costs and representing profit at risk, which would have been deferred and recognized as income as the uncertainty in the cash flows decreased. The margin would have been locked in at contract inception and not subsequently adjusted; however, the margin would have been subject to a periodic onerous contract test.

BC20. The amendments in the 2013 proposed Update would have required that an entity reflect the time value of money by discounting the expected cash flows using a current discount rate that reflected the characteristics of the insurance liability. The discount rate would have been updated for each reporting period. The 2013 proposed Update described two broad approaches that an entity could have used to determine an appropriate discount rate:

a. A "top down" approach under which the rate of a reference portfolio of assets would have been adjusted to reflect the characteristics of the insurance liability.
b. A "bottom up" approach under which the discount rate would have been derived by adjusting a risk-free rate to incorporate the liability characteristics.

BC21. An entity applying the premium allocation approach initially would have measured its liability for remaining coverage as the contractual premiums that are within the boundary of the existing contract. In subsequent periods, the entity would have reduced the measurement of the liability for remaining coverage on the basis of the expected timing of incurred claims and benefits and would have recognized the amount of that reduction as insurance contract revenue.

BC22. The amendments in the 2013 proposed Update generally would have required that an entity present the following in net income:

a. Insurance contract revenue:
   1. For the building block approach—over the coverage and settlement periods as the obligation to provide coverage and other services is satisfied
   2. For the premium allocation approach—over the coverage period on the basis of the expected timing of incurred claims.
b. Claims and expenses as they are incurred, and for contracts measured using the building block approach, changes in assumptions regarding expected cash flows.
c. Interest expense using the discount rates determined when the contract was initially recognized. Those rates would have been periodically reset for insurance contracts with discretionary participation features that change the expected cash flows.

BC23. The Board received 209 comment letters in response to the 2013 proposed Update. In addition, the Board conducted extensive outreach with insurance industry trade groups, preparers, auditors, and financial statement users, including roundtables, field testing, and workshops. Stakeholders expressed concerns about the following:

a. Increased recognition and measurement complexity. Stakeholders commented that the building block approach was complicated and difficult to understand and that additional examples should be provided to educate users on how their financial analyses would be affected.
b. Increased volatility. Stakeholders expressed concern that the amendments in the 2013 proposed Update would result in increased volatility in financial statements as a result of quarterly assumption updating that may not necessarily, in their view, represent the underlying economics given the long-duration nature of the liabilities and the relative stability of predictable payouts. Stakeholders generally stated that assumptions should be updated less frequently than quarterly, such as on an annual basis or if a change is persistent. Many stakeholders focused on the discount rate and, more specifically, on how changes in the discount rate should be recognized in the financial statements.
c. Decreased financial statement comprehension. Stakeholders commented that the amendments in the 2013 proposed Update would create a financial statement presentation that would be difficult to understand and would not improve comparability across different sectors. The highly specialized nature of accounting for insurance contracts hinders the comparison of the financial reports of insurance entities with other entities, limiting the decision usefulness of reported information and the efficient allocation of capital.
d. Issues with the proposed detailed disclosures. Financial statement preparers stated that certain disclosures such as (1) qualitative and quantitative information about the nature and extent of the risks arising from contracts issued by insurance entities and (2) quantitative and

qualitative information about the sensitivity of insurance balances to changes in inputs would be voluminous, costly to implement and to audit, and operationally burdensome. However, financial statement users generally supported many of the disclosure requirements in the 2013 proposed Update. Users stated that the additional proposed disclosures could improve the decision usefulness of the financial statements. In particular, users supported the requirement to disclose information about the assumptions used in estimating the insurance-related balances because that information would have provided increased transparency into the estimation process.

e. Scope. The scope of the amendments in the 2013 proposed Update would apply to all reporting entities that issue insurance contracts (as defined in that proposed Update), including reporting entities other than insurance entities. Stakeholders commented that the scope of insurance contract accounting should continue to be limited to reporting entities subject to insurance regulation because the benefits would not justify the costs of changing the accounting for insurance contracts issued by entities other than insurance entities.

BC24. Stakeholders also commented that the existing accounting model for short-duration contracts generally works well and is well understood. Most users supported only targeted improvements to existing GAAP for long-duration contracts, such as enhancing disclosure requirements and updating assumptions. Financial statement users recommended changes to discount rates because they currently have limited visibility into a reporting entity's interest rate risk and different insurance entities with similar products may use different rates to discount the expected future cash flows associated with those products.

BC25. As a result of this stakeholder feedback, the Board decided to limit the scope of the project to insurance entities within the scope of Topic 944. The Board also decided to split the insurance project into separate short-duration and long-duration contract phases.

BC26. For short-duration contracts, the Board decided to focus on improving disclosures because the benefits of changing the recognition, measurement, and presentation guidance for short-duration contracts would not justify the costs, especially if the guidance did not substantially converge with the 2013 IASB Exposure Draft. Financial statement users commented that additional disclosures about the liability for unpaid claims and claim adjustment expenses would increase the transparency of significant estimates made in measuring those liabilities. Those disclosures would provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims.

BC27. In response to this feedback on short-duration contracts, in May 2015, the Board issued Accounting Standards Update No. 2015-09, *Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts*.

BC28. For long-duration contracts, as a direct result of extensive outreach with users, preparers, and auditors of financial statements as well as insurance industry trade groups and actuaries, the Board decided to focus on making targeted improvements to existing recognition, measurement, and disclosure requirements. As such, the Board did not undertake a comprehensive reconsideration of existing specialized principles and practices.

BC29. In September 2016, the Board issued a proposed Accounting Standards Update, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* (2016 proposed Update).

BC30. The amendments in the 2016 proposed Update focused on improving the following aspects of the accounting model for long-duration contracts:

a. Improve the timeliness of recognizing changes in the liability for future policy benefits by requiring that updated assumptions be used to measure the liability (that is, that assumptions should be "unlocked") and modify the rate used to discount future cash flows. Financial statement users raised concerns about the use of out-of-date assumptions or "locked-in" assumptions to calculate the liability for traditional insurance contracts. Users also raised concerns about the use of an insurance entity's expected yield on its investment portfolio to discount the liability. Discounting insurance contract liabilities using those rates hinders a user's ability to analyze an insurance entity's true economic exposure, such as duration mismatches.
b. Simplify and improve the accounting for certain benefits embedded in variable contracts. Financial statement users, preparers, and auditors raised concerns about the complexity and inconsistency of the existing accounting models for benefits embedded in variable products that provide contract holders with protection from adverse capital market performance. In particular, users commented that those market risk benefits in variable products should be measured on a consistent basis because they share similar risks and economics. Also, preparers commented on the complexity of evaluating whether a market risk benefit should be accounted for as an embedded derivative in accordance with Topic 815, Derivatives and Hedging. Additionally, both users and preparers expressed concerns about the existing financial reporting disincentive to economically hedge capital market risk exposures arising from market risk benefits accounted for under an insurance accrual model because the hedging instruments are measured at fair value, resulting in earnings volatility not reflective of the economics.
c. Simplify the amortization of deferred acquisition costs. The Board received feedback from users and preparers about several issues with the existing deferred acquisition cost amortization methods, which are very specialized and unique to the insurance industry. Multiple amortization methods result in inconsistency by product type, even though the nature of the costs (for example, commissions and

underwriting costs) are the same across product types. The existing required estimated gross profit and estimated gross margin amortization models are complex and require numerous inputs and assumptions. Assumption updates can result in periodic adjustments that are challenging to calculate, understand, and explain. In certain situations, recovery of amounts recognized as amortization in prior periods may occur. That complexity limits the decision usefulness of information, thus hindering financial statement analyses. In particular, users provided feedback that linking the amortization of deferred acquisition costs to changes in the liability or investment experience results in offsetting effects in net income, which complicates financial results and the evaluation of an insurance entity's financial performance.

d. Improve the effectiveness of the required disclosures. Financial statement users provided feedback that existing disclosures provide limited decision-useful information. Users expressed an interest in obtaining more transparency into the exposures of an insurance entity and the drivers of the entity's results. Users also expressed an interest in better understanding the assumptions used in the measurement of insurance liabilities and changes in those assumptions.

BC31. The Board received 39 comment letters in response to the 2016 proposed Update. In addition, the Board held a public roundtable meeting on April 19, 2017, and conducted further outreach with insurance industry trade groups, preparers, auditors, actuaries, and financial statement users. The Board's consideration of stakeholder feedback and their conclusions are included in the relevant sections of this basis for conclusions.

Basis for Conclusions

Liability for Future Policy Benefits—Assumption Unlocking

Existing GAAP

BC32. Under existing GAAP, the liability for future policy benefits for traditional and limited-payment contracts represents the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums (that is, the portion of gross premiums required to provide for those benefits and expenses). The liability is estimated using methods that include assumptions applicable at the time that the insurance contracts are originated. The liability also includes a provision for risk of adverse deviation as an allowance for possible unfavorable deviations from assumptions, and, therefore, the liability does not represent management's expectation of future net benefits to be paid under the contract. Original assumptions continue to be used in subsequent periods to determine the liability for future policy benefits (commonly referred to as the "lock-in concept") unless a premium deficiency arises.

BC33. Users and preparers were critical of the existing accounting model for traditional and limited-payment contracts whereby original assumptions are not updated, even though long-duration contracts may be in force for many decades. Users in particular stated that a requirement to update assumptions would be a major improvement over the requirements in existing GAAP. Many users and preparers also focused on the discount rate and, more specifically, how changes in the discount rate should be recognized in the financial statements. Financial statement preparers favored quarterly updating for discount rates because that would more closely align with the quarterly updating of assets carried at fair value that are used to back insurance liabilities and, therefore, mitigate capital volatility.

2013 Proposed Update

BC34. The building block approach in the 2013 proposed Update would have represented a substantial change from existing GAAP. Under the building block approach, an entity would project expected future cash flows at their current fulfillment value (that is, an unbiased probability-weighted estimate), discounted at a current rate that reflects the characteristics of the liability. The cash flow estimates and discount rate would be updated each reporting period. The effects of changes in cash flow estimates would be recognized in earnings. Changes associated with fluctuations in the discount rate from inception would be recognized in other comprehensive income. A margin would be recognized, representing profit at risk, which is deferred and recognized in income as the uncertainty in the cash flows decreases. An entity would offset qualifying acquisition costs against the margin (as opposed to recognizing a deferred acquisition cost asset). The margin would be locked in at contract inception—that is, it would not be adjusted, even when the estimated cash flows used to determine that margin are updated over the life of the contract; however, the margin would be subject to a periodic onerous contract test.

BC35. Preparers, users, and industry groups commented that the building block approach was complicated and difficult to understand, that it would not improve comparability across different industry sectors, and that additional examples should be provided to educate users on how their financial analyses would be affected.

BC36. Preparers, users, and industry groups also expressed concern that the building block approach would result in increased volatility in financial statements as a result of quarterly assumption updating that, in their view, may not necessarily represent the underlying economics given the long-duration nature of the liabilities and the relative stability of predictable payouts. These stakeholders stated that cash flow assumptions should be updated less frequently than quarterly, such as on an annual basis or if a change is deemed to be persistent.

BC37. Some users expressed concern that quarterly assumption updating of discount rates would result in increased volatility in financial statements and generally stated that assumptions should be updated less frequently than quarterly, such as on an annual basis or if a change is persistent. However, many financial statement preparers favored interim updating for discount rates because that would more closely align with the underlying economics and the interim updating of assets carried at fair value.

2016 Proposed Update

BC38. After considering stakeholder feedback collected throughout the project, the Board proposed to retain the existing net premium reserving model for traditional, limited-payment, and participating insurance contracts and improve it by eliminating the lock-in concept associated with that model. Specifically, the Board proposed to require that an insurance entity update all model assumptions on a periodic basis rather than retain contract inception assumptions over a contract's life, which can extend for several decades over multiple economic cycles.

BC39. An insurance entity would be required to update cash flow assumptions (such as mortality, morbidity, and termination assumptions) on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that prior assumptions should be revised in interim reporting. An insurance entity also would be required to update discount rate assumptions at each reporting date.

BC40. The Board proposed certain other related changes as a result of the decision to require the periodic updating of assumptions used in the measurement of the liability for future policy benefits. Specifically, premium deficiency testing would be eliminated because measurement assumptions would be updated on a periodic basis, and, therefore, there would be no need for a test to determine whether measurement assumptions should be updated. The provision for risk of adverse deviation also would be eliminated because the liability would be measured on the basis of periodically updated assumptions. Additionally, the determination of whether to establish a liability (in addition to an account balance) for annuitization, death, or other insurance benefits would be performed on a periodic basis rather than only at contract inception.

BC41. To calculate and record the effects of updating assumptions, cash flow assumptions would be updated using a catch-up method and the discount rate assumption would be updated using an immediate method. Under the cash flow assumption update method, a revised net premium ratio would be calculated as of contract inception using actual historical experience and updated future cash flow assumptions. The revised net premium ratio would then be applied to derive a cumulative catch-up adjustment to be recognized in current-period benefit expense. In subsequent periods, the revised net premium ratio would be used to accrue the liability for future policy benefits. As a result of the proposed elimination of premium deficiency testing, expected benefits and expenses in excess of expected gross premiums would be recognized as a loss in the current period—that is, the net premium ratio would be capped at 100 percent so that losses would not be deferred into future periods. The net premium ratio would not be updated for discount rate assumption changes. Rather, the effects of discount rate changes would be recognized immediately in other comprehensive income. The amount included in accumulated other comprehensive income would represent the difference between the carrying amount of the liability for future policy benefits measured using updated discount rates and the carrying amount of the liability for future policy benefits measured using rates determined at contract inception.

Feedback on the 2016 Proposed Update and Redeliberations

BC42. Users, preparers, industry groups, auditors, and other stakeholders broadly supported the notion of unlocking and updating liability measurement assumptions. Nearly all of these stakeholders provided feedback that using out-of-date assumptions to measure the liability for future policy benefits under existing GAAP results in information that is less decision useful. The Board noted that a liability measured with updated assumptions provides more decision-useful information and more faithfully represents an insurance entity's obligation because it gives users a more current view of the insurance entity's expected cash flows and resulting contract profitability, as opposed to a historical view that includes a provision for adverse deviation.

BC43. In determining the method for updating cash flow assumptions, the Board focused on its principal objectives of unlocking assumptions and remeasuring the reported insurance liability on the basis of updated assumptions. The Board concluded that the catch-up method—which is currently used for updating universal life insurance contract liabilities—should be extended to traditional and limited-payment insurance contracts. The Board determined that a catch-up method best achieves the Board's goal of improving the timeliness of recognizing changes in the liability and refining the profit margin because estimated cash flows are updated for the effects of changes in future assumptions and trued-up for actual experience as that experience emerges. Additionally, the catch-up method achieves the objective of remeasuring the reported liability on the basis of updated assumptions, resulting in a more current measure of the insurance liability presented on the balance sheet.

BC44. Some preparers and other stakeholders provided comment letter feedback that the catch-up method:

a. Allows for future profits to emerge on the basis of updated cash flow assumptions without being encumbered by assumptions related to prior periods

b. Gives financial statement users a more current view of expected cash flows
c. Results in a more faithful representation of an insurance entity's obligations.

BC45. The Board considered an alternative approach put forth by a majority of preparers whereby the estimated cash flow effects of future assumption changes would be recognized prospectively in future periods, while the estimated cash flow effects of actual experience deviations would be recognized on an immediate basis. Although one Board member favored a prospective method, ultimately the Board rejected a prospective method because it would have failed to achieve the Board's principal objectives of fully unlocking assumptions and remeasuring the reported insurance liability on the basis of updated cash flow assumptions. Specifically, the Board considered the following:

a. Accounting assumptions would remain locked and not be updated or trued-up for actual experience under a prospective method. This lack of updating is a characteristic of the existing accounting model, and, therefore, a prospective method would not represent a meaningful improvement over existing GAAP.
b. The reported insurance liability would not be remeasured for the effect of assumption changes under a prospective method because the effect of those assumption changes would be reflected in future periods. Therefore, a prospective method would not represent a meaningful improvement over existing GAAP.

BC46. Furthermore, the Board considered that the catch-up method is the currently established method of updating assumptions for some life insurance liabilities. Therefore, the Board is not introducing a new concept in insurance accounting; rather, the Board is simply extending the existing assumption update method to additional life insurance products.

BC47. The Board considered comment letter feedback from several preparers and industry groups indicating that cash flow projections for traditional and limited-payment contracts primarily involve mortality, morbidity, and lapse rate assumptions that typically are not volatile and, given their long-term nature, these assumptions may not need to change annually. For this reason, many of those preparers and industry groups stated that the initially proposed requirement to *update* assumptions at least annually should instead be changed to *review* assumptions at least annually to consider the fact that after a review, certain assumptions, given their long-term nature, may not have to change annually. The Board agreed and changed the proposed requirement to reflect this recommendation from preparers and industry groups. Also, in response to preparer concerns about potential earnings distortion arising from the liability remeasurement adjustment, the Board decided to require the separate presentation of that adjustment to enable users to distinguish between the effect of the liability remeasurement and the recurring policyholder benefit expense.

BC48. The Board contemplated preparer feedback about the costs associated with the catch-up method as proposed, and during redeliberations the Board made several revisions to the proposal to address those cost concerns and reduce the initial and ongoing cost burden. Specifically, preparers commented that it would be costly to:

a. Update cash flow assumptions for actual experience every quarter. In response to this feedback, the Board decided that an insurance entity must review and, if there is a change, update cash flow assumptions for actual experience at least annually, which could coincide with the time that the insurance entity evaluates and updates its future cash flow assumptions.
b. Update the expense assumption for actual experience because expenses are typically allocated to contracts and the allocation process is costly and time consuming. In response to this feedback, the Board decided that an insurance entity may elect to not update the expense assumption on an entity-wide basis.
c. Obtain the necessary history to adopt the guidance on a full retrospective basis because many contracts were originated decades ago and, if estimates are used, it would be difficult to determine whether the estimates were good enough to use upon transition. Preparers also commented that it would be challenging to demonstrate impracticability to not apply the guidance on a full retrospective basis. In response to this feedback, the Board decided to eliminate the requirement to adopt the guidance on a full retrospective basis. Instead, the Board decided to require adoption of the guidance on a modified retrospective basis as of the earliest period presented and to provide an option for full retrospective adoption.
d. Accumulate and maintain the data necessary to evaluate the need to establish an additional liability for death or annuitization benefits for universal life-type contracts. In response to this feedback, the Board decided to retain the existing premium deficiency and loss recognition guidance for those contracts instead of changing the additional liability guidance from a contract inception evaluation to an ongoing evaluation.
e. Maintain contracts that were grouped on a quarterly basis. In response to this feedback, the Board clarified that grouping on an annual basis is a minimum requirement but that quarterly grouping is permitted.

BC49. The Board considered feedback that the catch-up method could result in counterintuitive accounting that would be difficult for users to understand. However, the Board observed that under a catch-up method, if adverse development (lower future profitability) is expected, the liability is increased and a loss is reflected in earnings. Conversely, if favorable development (higher future profitability) is expected, the liability is decreased and a gain is reflected in earnings. Users provided feedback that this relationship between liability remeasurement and expected future cash flow changes was directionally intuitive and informative, thereby enabling users to get a better sense of expected future profitability changes. Users found the lack of a liability remeasurement under a prospective method when expected future cash flows change to be counterintuitive, especially considering that users are used to seeing other liabilities (for example, the liability for unpaid claims on property and casualty insurance contracts) being remeasured to reflect changes in expected future cash flows.

BC50. Some preparers provided feedback that a prospective method would result in net income changes that are more aligned with changes in expected cash flows and the immediate full recognition of actual experience deviations. The Board observed that under the existing net premium insurance accounting model, total cash inflows and outflows over an entire contract's life are aggregated to calculate a net premium ratio that is used to derive a constant profit margin over the entire contract life. By design, GAAP profits (which are recognized evenly) emerge differently from cash profits (which are front ended). Stated differently, unlike a statement of cash flows, GAAP earnings are not intended to track cash flows because cash flows over a discrete time period do not capture the overall contract profitability. A prospective method concentrates the effect of cash flow changes into the remaining periods; as a result, the contract profitability reported in those remaining periods would not represent contract profitability on the basis of total cash flows received and paid.

BC51. The Board considered a third method for updating cash flow assumptions whereby the net premium ratio would remain locked, causing the effect of assumption updates to be recognized immediately. Some Board members favored this approach because the cumulative effect of any change in assumption would be reflected immediately in current-period benefit expense, thus providing greater transparency into the magnitude of the effect of the assumption change. Those Board members also asserted that immediate recognition in earnings of the change in the cash flow assumptions of a liability would provide a better understanding of the overall duration mismatch between an entity's insurance liabilities and related invested assets because the full change in expected cash flows on many of the entity's invested assets are generally recognized immediately. Ultimately, the Board rejected that approach because it would have resulted in a locked margin and the effects relating to future periods would be recognized immediately in the current period rather than in those future periods.

BC52. The Board decided not to include participating contracts within the scope of the amendments on assumption unlocking because mutual insurance entities generally do not furnish GAAP-basis financial statements and the liability accounting model required by this Update may not be an appropriate model for participating contracts that contain both liability and equity elements (in the form of guaranteed benefits and discretionary dividends, respectively). However, the Board recognized that demutualized insurance entities may hold participating insurance contracts in closed blocks and their financial statement users are interested in understanding whether those closed blocks may be deficient and necessitate the contribution of additional capital into the closed block. Therefore, the Board decided to enhance disclosures pertaining to premium sufficiency or deficiency for those contracts.

BC53. The Board considered that insurance entities currently undertake periodic assumption reviews when performing premium deficiency testing. Instead of using those assumptions to perform premium deficiency testing, insurance entities may use those updated assumptions to remeasure the liability for future policy benefits. The Board acknowledged that there will be initial costs to modify reserving models to facilitate the recording of the effect of assumption updates; however, recurring costs should be lower than initial one-time costs once systems are reconfigured.

BC54. In response to some user concerns about capital volatility, some Board members favored an approach whereby discount rates would be updated annually rather than quarterly. However, the Board concluded that quarterly updating of discount rates provides a more current measure of the liability at each reporting date as opposed to only once a year. Also, quarterly updating of discount rates was broadly supported by preparers, and it better aligns with quarterly updating of the majority of assets backing the insurance liability.

Liability for Future Policy Benefits—Discount Rate

Existing GAAP

BC55. Under existing GAAP, the discount rate assumption for the liability for future policy benefits for traditional and limited-payment contracts is based on estimates of investment yields (net of related investment expenses) expected at the time that insurance contracts are originated.

BC56. Financial statement users recommended changes to discount rates because users have a limited understanding of a reporting entity's interest rate risk and different insurance entities with similar products may use different discount rates. Specifically, users raised concerns about the use of an insurance entity's expected investment yield to discount the liability for future policy benefits. Discounting insurance contract liabilities using those rates may reduce a user's ability to analyze an insurance entity's economic exposure, such as duration mismatches. Those users recommended either that the disclosure about the discount rates that are used be enhanced or that a more reliable, market-observable rate be used and applied across the industry.

2013 Proposed Update

BC57. Under the building block approach in the 2013 proposed Update, an entity would discount expected future cash flows at a current rate with characteristics similar to the liability (that is, the "top down" approach or the "bottom up" approach).

The discount rate would be updated at each reporting period. The effects of changes associated with fluctuations in the discount rate from inception would be recognized in other comprehensive income.

BC58. Users generally supported the use of a discount rate independent from the expected yield on an entity's investment portfolio. Financial statement preparers raised concerns that determining an illiquidity premium when following the bottom-up approach or identifying which yield to strip out when following the top-down approach was conceptually and practically challenging.

2016 Proposed Update

BC59. Under the amendments in the 2016 proposed Update, future cash flows would be discounted using a current high-quality fixed-income instrument yield that maximizes the use of observable market inputs and is independent of the return that an insurance entity expects to earn on its investment portfolio.

Feedback on the 2016 Proposed Update and Redeliberations

BC60. Users and preparers generally agreed that the discount rate assumption should reflect the characteristics of the insurance liability while maximizing the use of observable market inputs. However, most preparers commented that a high-quality yield (generally interpreted as an AA rating) would not reflect the characteristics of the insurance liability; instead, many of these preparers recommended that a lower credit quality yield would better reflect the characteristics of the insurance liability. In response to this feedback, the Board decided that future cash flows should be discounted using a current upper-medium grade (low-credit-risk) fixed-income instrument yield (generally interpreted as an A rating).

BC61. The Board concluded that the proper rate to discount this net liability is a liability rate rather than a rate linked to the insurance entity's investment experience. The Board noted that an insurance entity's economic success is influenced by its ability to invest its assets and earn a rate that exceeds the time value of money on its liabilities. If an insurance entity's investment yield is used to discount the liability, the liability accretion expense would approximate the insurance entity's investment returns, which would not provide information about duration risk and the spread between the return on investment and time value of the liability.

BC62. The Board also considered that an insurance entity is obligated to perform on its guaranteed benefit obligations irrespective of its investment strategy. Also, in the Board's view, an independent observable market rate allows for better comparability across insurance entities. An insurance entity with a lower quality investment portfolio should not report a lower liability than an insurance entity with a higher quality investment portfolio simply because the lower quality investment portfolio has a higher estimated rate of return because of the increased risk.

BC63. FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, specifies that interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions would be double counted or ignored. Because the Board decided that the discount rate should be a current upper-medium grade (low-credit-risk) fixed-income instrument yield that maximizes the use of observable market inputs, any adjustment for uncertainty in cash flow variability not reflected in that rate should be incorporated into the development of the estimated cash flows.

BC64. The Board rejected an alternative that would have involved using a top-down methodology or bottom-up methodology similar to what was contemplated in the 2013 proposed Update, agreeing with preparer feedback that stated that determining an illiquidity premium or identifying which yield to strip out was conceptually and practically challenging. In reaching its decision, the Board placed an emphasis on ease of operability.

BC65. The Board recognizes that in some instances there may be points on the yield curve for which there are limited or no observable market data, especially for liabilities that are expected to be settled many decades from the reporting date. Additionally, there may be periods of market dislocation. For points on the yield curve for which there are limited or no observable market prices, or during periods of market dislocation, an entity should use an estimate that is consistent with existing GAAP guidance on fair value measurement, particularly for Level 3 fair value measurement. In applying that guidance, an entity should adjust an observable input that relates to a liability with characteristics that are different from the characteristics being measured.

Market Risk Benefits

Existing GAAP

BC66. Variable contracts allow the contract holder to direct all or a portion of the account balance into an investment that passes the risks and rewards of holding that investment to the contract holder. Fixed indexed contracts also expose the contract holder to capital market risk. Over time, features (referred to as market risk benefits) have been added to those products whereby an insurance entity may provide the contract holder with protection from capital market risk. Those features include guaranteed minimum death, accumulation, income, withdrawal, and lifetime withdrawal benefits.

BC67. A common attribute of those benefits is that the insurance entity is obligated to cover the shortfall between the guaranteed benefit and the account balance (commonly referred to as the net amount at risk), thus exposing the insurance entity to capital market risk. However, benefits that meet the embedded derivative criteria under Topic 815 are measured at fair value, while those that do not are accounted for as insurance under Topic 944.

BC68. The Board considered stakeholder feedback specific to existing GAAP. Preparers commented on the complexity of evaluating whether a benefit should be accounted for as an embedded derivative in accordance with Topic 815. Additionally, both users and preparers expressed concern about the existing financial reporting disincentive to economically hedge capital market risk exposures arising from market-related benefits accounted for under an insurance accrual model because the hedging instruments are measured at fair value, resulting in earnings volatility not reflective of the economics.

2013 Proposed Update

BC69. Under the building block approach in the 2013 proposed Update, cash flows associated with market risk benefit features in an insurance contract would have been included in the fulfillment cash flows used to calculate the insurance contract liability if those benefits did not meet the embedded derivative criteria under Topic 815. However, benefits that did meet the embedded derivative criteria under Topic 815 would have continued to be measured at fair value.

BC70. Preparers and auditors raised concerns about the complexity and inconsistency of the existing accounting models for those benefits, which would not have been resolved by the amendments in the 2013 proposed Update. In particular, users commented that those benefits should be measured on a consistent basis because they share similar risks and economics, but the amendments in the 2013 proposed Update would not have resulted in a single model for those similar benefits.

2016 Proposed Update

BC71. To address stakeholder concerns, the Board proposed to require that an insurance entity measure all market risk benefits at fair value. Fair value changes would be recognized in net income, except for the portion of any change in fair value attributable to a change in the instrument-specific credit risk, which would have been recognized in other comprehensive income. This proposal would have applied to contracts and benefits that meet both of the following criteria:

a. Contracts. The contract holder has the ability to direct funds to one or more separate account investment alternatives, and investment performance, net of contract fees and assessments, is passed through to the contract holder.
b. Benefits. The insurance entity provides a benefit protecting the contract holder from adverse capital market performance, exposing the insurance

entity to other-than-nominal capital market risk. A benefit is presumed to have other-than-nominal capital market risk if the net amount at risk would vary significantly in response to capital market volatility. Capital market risk includes equity, interest rate, and foreign exchange risk.

Feedback on the 2016 Proposed Update and Redeliberations

BC72. A number of respondents supported expanding the scope to include general account products, noting that market risk benefits should be accounted for consistently across general account products and separate account products. Those respondents noted that insurance entities may offer benefits in general account products that are in substance similar to benefits that are offered in separate account products, such as guaranteed minimum death benefits in general account indexed products with crediting rates that may go negative or guaranteed minimum lifetime withdrawal benefits in fixed indexed annuities. Those respondents noted that different measurement models for economically similar benefits may increase complexity and lead to user confusion. The Board agreed with those respondents and decided to expand the scope of market risk benefits to include general account products.

BC73. In reaching its decision, the Board considered the existence of mortality or longevity risk inherent in life-contingent market risk benefits. Some respondents supported an insurance accrual model for benefits with payments that are life contingent and a fair value model for benefits with payments that are not life contingent. The Board observed that mortality is one of the inputs used to measure life-contingent market risk benefits at fair value and, therefore, life contingency is captured in the valuation process. The Board noted that the mortality input, which predicts how long a contract holder is expected to live, is used to project the timing of a benefit payment. In contrast, variability in the benefit amount (or the net amount at risk, which involves comparing an account balance with a guaranteed amount) is influenced by capital market performance. Given the significant effect of capital market risk on the benefit payment amounts, the Board concluded that fair value measurement using current market assumptions better reflects the market risk inherent in those benefits compared with an insurance accounting model that establishes a liability ratably over the life of the contract on the basis of entity-specific assumptions about future market variability.

BC74. In the Board's view, a fair value measurement better reflects the risks inherent in, and the economics of, market risk benefits, thereby providing more decision-useful information. While each guaranteed feature may have unique characteristics, all share some common market risks. In other words, an insurance entity is insuring a potential shortfall (caused by market performance) between a policyholder's account balance and a guaranteed amount.

BC75. The Board also notes that a fair value measurement often better aligns with an insurance entity's risk management practices. The Board observed that insurance entities may utilize dynamic hedging strategies designed to mitigate the capital market risk exposure arising from market risk benefits, including equity market returns, interest rates, and foreign exchange rates. Under those strategies, an insurance entity may enter into equity, interest rate, or foreign exchange derivatives that seek to offset the capital market risk exposure in market risk benefits. The Board considered feedback from insurance entities that were concerned about the existing financial reporting disincentive to economically hedge their capital market risk exposures arising from benefits currently accounted for under a smooth insurance accrual model because the hedging instruments are measured at fair value, resulting in earnings volatility not reflective of the economics. The Board noted that measuring market risk benefits at fair value facilitates an insurance entity's risk management activities by removing that perceived disincentive.

BC76. The Board considered the costs associated with changing the measurement model for market risk benefits. Rather than consider introducing a new measurement model, which would have required the development of new systems and processes as well as an educational effort, the Board selected one of the two existing measurement models—that is, fair value—as the single measurement model for market risk benefits. As a result, the accounting for some market risk benefits does not change other than for the presentation of changes in the instrument-specific credit risk in other comprehensive income. For benefits that are measured at fair value, the Board notes that insurance entities should be able to leverage existing models and practices, thereby mitigating any incremental costs of adopting the amendments in this Update.

BC77. The Board also considered feedback from insurance entities about the challenges of interpreting and applying the derivatives accounting guidance to determine whether a particular benefit should be accounted for as an embedded derivative under Topic 815 or as insurance under Topic 944. This challenge is particularly acute with the accounting for guaranteed minimum lifetime withdrawal benefits, which has resulted in diversity in the accounting for those benefits. Under the amendments in this Update, insurance entities will benefit from no longer needing to perform this evaluation because market risk benefits are accounted for under Topic 944.

BC78. The Board decided that changes attributable to the instrument-specific credit risk should be reported in other comprehensive income rather than in earnings. The Board noted that this decision is consistent with its decision to require that entities present separately in other comprehensive income the portion of the total fair value change of a liability caused by a change in credit risk if the fair value option is elected under Topic 825, Financial Instruments. The Board also considered that insurance entities typically exclude their risk of nonperformance in the development of their hedging strategies because the objective is to hedge the entire projected claim irrespective of the possibility of the insurance entity's default.

Deferred Acquisition Costs

Existing GAAP

BC79. Insurance entities incur costs in connection with the issuance or renewal of long-duration contracts. Under existing GAAP, costs that are incremental and directly related to the successful acquisition of new (or the renewal of existing) contracts are deferred. Such costs generally include agent or broker commissions and bonuses, premium taxes, medical and inspection fees, and other costs of policy issuance and underwriting. Depending on the type of contract, deferred acquisition costs are amortized under several different methods, including in proportion to gross premiums, gross profits, or gross margins. Certain other balances, such as the unearned revenue liability for universal life-type contracts, are amortized on a basis consistent with deferred acquisition costs.

BC80. The Board received feedback from both users and preparers about several issues with the existing deferred acquisition cost amortization methods, which are very specialized and unique to the insurance industry. Multiple amortization methods under existing GAAP result in inconsistency by product type, even though the nature of the costs (for example, commissions and underwriting costs) are the same across product types. Users and preparers noted that the existing estimated gross profit and estimated gross margin amortization models are complex and require numerous inputs and assumptions and that assumption updates can result in periodic adjustments that are challenging to calculate, understand, and explain. In certain situations, recovery of amounts recognized as amortization in prior periods may occur. This complexity limits the decision usefulness of information, thus hindering financial statement analyses. In particular, users provided feedback that linking the amortization of deferred acquisition costs to changes in the liability or investment experience results in offsetting effects in net income, which complicates the evaluation of an insurance entity's financial performance.

2013 Proposed Update

BC81. Under the building block approach in the 2013 proposed Update, there would be no separate deferred acquisition costs asset. Instead, qualifying acquisition costs would be netted against the margin on the balance sheet. Deferred acquisition costs would be amortized on a basis consistent with the amortization of the margin (that is, as the entity is released from risk). However, the amortization expense would be reported in expense and not netted with insurance contract revenue.

BC82. Although the amendments in the 2013 proposed Update would have resolved the concerns about multiple amortization models by introducing a single amortization approach, users would not have gained greater visibility because deferred acquisition costs would have been netted with the margin and the amortization pattern would not have been intuitive. Stakeholder concern about offsetting effects would not have been resolved by the amendments in the 2013 proposed Update because deferred acquisition costs would have been amortized in relation to the margin.

2016 Proposed Update

BC83. To address both user and preparer concerns, the Board decided to simplify the amortization of deferred acquisition costs and other balances amortized on a basis consistent with deferred acquisition costs, such as the unearned revenue liability for universal life-type contracts. Specifically, the Board decided that balances amortized in proportion to premiums, gross profits, or gross margins should instead be amortized in proportion to the amount of insurance in force. If the amount of insurance in force over the expected term of the related contract cannot be reasonably estimated, as is the case with certain universal life-type or investment contracts, straight-line amortization should be used.

BC84. Existing GAAP specifies that contract renewal amounts (such as renewal commissions or renewal loads) can be capitalized only upon successful contract renewal. Accordingly, the Board decided that renewal amounts can only be amortized after those renewal amounts are capitalized (that is, only upon successful contract renewal). The Board also decided to eliminate the practice of accruing interest on the balance of deferred acquisition costs because the amortization methods do not employ present value techniques and deferred acquisition costs are not, in themselves, monetary items.

Feedback on the 2016 Proposed Update and Redeliberations

BC85. Some preparers and auditors noted that the term *insurance in force* is too narrow and cannot be applied to a wide range of products that are issued by insurance entities. As a recommendation, these respondents suggested that the Board provide guidance that could be applied across all product types. The Board agreed with those respondents and decided that deferred acquisition costs relating to a contract should be amortized on a constant basis to derive a level amortization amount over the expected life of that contract, independent of profit emergence.

BC86. In the Board’s view, simplification will benefit both users and preparers. From a user perspective, simplification improves the understandability of an insurance entity’s financial results because the amortization pattern is easier to understand and forecast and is independent of liability measurement assumption updates. Users expressed concern over the magnitude of periodic unlocking adjustments, mostly because of the influence of market factors in the amortization pattern. These frequent earnings adjustments complicate financial statement analyses, can be unintuitive or counterintuitive, and are difficult to model. Under the amendments in this Update, the amortization pattern is no longer influenced by or fluctuates in relation to the effects of investment performance or changes in expected future liability cash flows. As a result, users will benefit from greater understanding about the effects of updated future cash flow assumptions without the distortion from the recalibration of the amortization of historical cash flows.

BC87. In the Board's view, insurance entities will benefit from the reduced costs of a simpler amortization model. Insurance entities provided feedback that existing amortization methods are operationally burdensome and that significant resources are devoted to running the amortization models, evaluating adjustments, and explaining the adjustments to management and users. Under the amendments in this Update, insurance entities may devote fewer resources to running amortization models and analyzing and explaining amortization adjustments.

BC88. Some preparers indicated that it is inconsistent to require retrospective unlocking of assumptions for the liability for future policy benefits while eliminating a similar unlocking of assumptions in existing GAAP for the amortization of deferred acquisition costs. However, in reaching its decisions, the Board considered that deferred acquisition costs represent historical cash flows—that is, expenses such as commissions or underwriting costs incurred when a contract is originated or renewed. The Board observed that because the cash flows occurred in the past and a cost accumulation measurement approach is followed, there is no measurement uncertainty associated with deferred acquisition costs. In contrast, the estimated gross profit or margin amortization methods introduce uncertainty (and earnings variability) because the amortization rate under those methods is affected by multiple long-dated assumptions or market-based assumptions (such as expected investment performance) that fluctuate over the expected contract term. In reaching this conclusion, the Board considered other areas of GAAP in which amortization is employed. In particular, constant-level amortization is consistent with the amortization of finite-lived intangible assets under Topic 350, Intangibles—Goodwill and Other, in which a straight-line amortization method must be used if the pattern in which the economic benefits of the intangible asset are consumed cannot be reliably determined.

BC89. The carrying amount of deferred acquisition costs are reduced as a result of unexpected contract terminations but not as a result of changes in contract profitability. Expensing upfront acquisition costs over the entire contract term is consistent with expensing back-end costs (such as termination and settlement costs) over the entire contract term (through the accrual of the liability for future policy benefits) and the expensing of recurring maintenance costs over the entire contract term as those costs are incurred. The Board considered alternative approaches whereby the carrying amount of deferred acquisition costs would be adjusted for changes in the profitability of the related contracts. In reaching its decision, the Board observed that a long-duration contract is akin to a financing arrangement in which a contract holder provides cash to the insurance entity (in the form of a premium or deposit) and the insurance entity agrees to return cash to the contract holder or beneficiary at a future date, subject to the terms of the contractual arrangement and, therefore, establishes a liability to recognize that obligation. In this regard, deferred acquisition costs are similar to debt issuance costs. Under existing GAAP, debt issuance costs are deferred and amortized over the borrowing term, independent of how that entity chooses to utilize the borrowing proceeds. No impairment assessment is performed on deferred borrowing costs; rather, those costs are amortized as long as the borrowing is outstanding and are viewed as part of the funding cost.

Disclosure

Existing GAAP

BC90. Financial statement users provided feedback that existing disclosures provide limited decision-useful information. Users stated that they rely on information obtained from various sources other than GAAP financial statements—for example, supplemental schedules provided by insurance entities and U.S. statutory filings—and that additional disclosures would improve the decision usefulness of the financial statements.

2013 Proposed Update

BC91. Under the amendments in the 2013 proposed Update, an entity would need to disclose qualitative and quantitative information about (a) the amounts recognized in its financial statements arising from insurance contracts, (b) the significant judgments and changes in judgments, and (c) the nature and extent of risks arising from insurance contracts. The purpose of those disclosures was to help financial statement users understand the amount, timing, and uncertainty of future insurance contract cash flows. An entity would need to (1) discuss the methods, processes, and assumptions it uses and (2) analyze uncertainty about significant inputs that have a material effect on measurements. The amendments in the 2013 proposed Update specified that an entity could not obscure information by providing disclosures with overly summarized levels of aggregation (for example, combining portfolios that have different characteristics) or masking relevant information with insignificant details.

BC92. Financial statement users generally supported many of the disclosure requirements in the 2013 proposed Update. In particular, users supported the requirement to disclose information about the assumptions used in estimating the insurance contract liability balances because they provide increased transparency into the estimation process. Financial statement preparers noted that certain disclosures, such as (a) qualitative and quantitative information about the nature and extent of the risks arising from contracts issued by insurance entities and (b) quantitative and qualitative information about the sensitivity of insurance contract liability balances to changes in inputs, would be voluminous, costly to implement and to audit, and operationally burdensome.

2016 Proposed Update and Redeliberations

BC93. In response to user and preparer feedback, and after analyzing the voluntary disclosures that public insurers make available to investors and other users outside of the financial statements, the Board decided to require that an insurance entity provide a rollforward of beginning to end balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account assets and liabilities, and deferred acquisition costs. The Board made this decision because those reconciliations inform users of financial statements about changes in those asset and liability balances during the reporting period that they would not be able to otherwise discern by simply observing the change in the asset or liability balances. The Board noted that users of financial statements indicated that these reconciliations would be one of the most useful disclosures because of the numerous factors that cause the changes in those balances, thus providing decision-useful information in assessing the performance and expected performance of an insurance entity.

BC94. In addition, to provide context to the information presented in the rollforwards, the Board decided to require the disclosure of assumptions and changes in assumptions. The Board also decided to include other information that users indicated would be useful in their analyses of an insurance entity's financial performance, including crediting rates and actual deviations from expected experience.

BC95. The Board decided that an insurance entity should aggregate or disaggregate disclosures so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have significantly different characteristics. Disaggregation allows users to understand the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities.

BC96. The Board decided that useful disaggregation of disclosures depends on the characteristics of the contracts that an insurance entity writes and on various entity-specific factors; therefore, the guidance should not prescribe any specific factor to be used as the basis for disaggregating the disclosures. Instead, the Board decided to specify a principle for providing disaggregated information. The Board noted that specifying a principle should result in useful information for financial statement users because it enables an insurance entity to disaggregate the disclosures into categories that are meaningful for its business. In addition, specifying a principle should result in disaggregation that is neither too aggregated nor too detailed. The Board also noted that an insurance entity should not aggregate amounts from different reportable segments because this would reduce the usefulness of the disclosure.

BC97. The Board also considered the guidance in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. In selecting the disclosure objectives, the Board concluded that disclosures about long-duration contracts should enable users of financial statements to evaluate the amount, timing, and uncertainty of cash flows arising from those contracts.

Transition

2016 Proposed Update

BC98. The Board decided that the amendments on the liability for future policyholder benefits in the 2016 proposed Update should be applied retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings) as of the beginning of the earliest period presented. In many cases, insurance entities will have objective, contemporaneous data about insurance contracts issued before the date of transition. Data could include actuarial reports and regulatory filings among other information. However, the Board recognized that there may be circumstances in which the historical information may be limited or unavailable or the application impracticable. Because of the age of many contracts in force (that is, some that have been issued decades ago), insurance entities might reasonably face challenges in accumulating the necessary data, especially if, historically, there was no perceived need to capture the data in accounting systems or if the systems used to capture the data have since been retired. Therefore, the Board decided to provide alternative transition provisions for those circumstances.

BC99. The Board decided that the amendments in this Update on market risk benefits should be applied retrospectively as of the beginning of the earliest period presented. The cumulative effects of changes in the instrument-specific credit risk between contract inception date and transition date should be recognized in the opening balance of accumulated other comprehensive income. The difference between fair value and carrying value at the transition date, excluding the effects of changes in the instrument-specific credit risk, should be reported as an adjustment to the opening balance of retained earnings. The Board also decided that the amendments on deferred acquisition costs should be applied as of the transition date on the basis of the existing carrying amounts at that date, adjusted for the removal of any related amounts in accumulated other comprehensive income.

Feedback on the 2016 Proposed Update and Redeliberations

BC100. Preparers commented that it would be costly to obtain the necessary history to adopt the guidance on the liability for future policy benefits on a retrospective basis because many contracts were originated decades ago, and if estimates are used, it would be difficult to determine whether an estimate was good enough to use upon transition. Preparers also commented that it would be challenging to demonstrate impracticability to apply the guidance prospectively. In addition, preparers commented that an insurance entity should have the ability to apply the guidance on deferred acquisition costs on a retrospective basis.

BC101. The Board decided that an insurance entity should apply the guidance on the liability for future policy benefits and deferred acquisition costs to all contracts in force based on their existing carrying amounts at the transition date and updated future assumptions, adjusted for the removal of any related amounts in accumulated other comprehensive income. In response to preparer feedback noting that the proposed discount rate reset at the transition date would lead to discount rate changes being reflected in earnings, the Board decided that for purposes of calculating net premiums and interest accretion, an insurance entity should not reset the discount rate to the upper-medium grade fixed-income instrument yield as of the transition date.

BC102. An insurance entity may elect to apply the guidance retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings) using actual historical experience information as of contract inception. For consistency, an insurance entity should apply the same transition method to both the liability for future policy benefits and deferred acquisition costs. An insurance entity should elect to apply the guidance retrospectively at the same contract issue-year level for both the liability for future policy benefits and deferred acquisition costs. The election should be applied entity wide (that is, applied to all products and contracts) for that contract issue year and all subsequent contract issue years. Estimates of historical experience information may not be substituted for actual historical experience information.

BC103. Preparers also commented that retrospective transition for market risk benefits would be difficult because of the need (a) to calibrate the attributed fee at inception date, (b) to generate stochastic economic scenarios to determine the attributed fee on a market risk benefit retrospectively, and (c) to do so on an objective basis without the use of hindsight. In response to feedback, the Board decided that an insurance entity may use hindsight for transition purposes in instances in which assumptions in a prior period are unobservable or otherwise unavailable and cannot be independently substantiated.

Effective Date

BC104. The Board decided that for public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the amendments is permitted.

BC105. The Board acknowledges that adoption of the amendments in this Update will require significant effort from the insurance industry. Therefore, for public business entities, the Board decided that an effective date more than two years after issuance of this Update should provide these entities with sufficient time to implement the amendments. The Board concluded that a later effective date is appropriate for all other entities because those entities are generally more resource constrained than public business entities and rely on the experience of public business entities when implementing new guidance.

International Financial Reporting Standards (IFRS® Standards)

BC106. IFRS 17, *Insurance Contracts*, which was issued by the IASB in May 2017, addresses the accounting and financial reporting for insurance contracts.

BC107. IFRS 17 requires that an entity measure its insurance contracts using a current measurement model in which estimates are remeasured at each reporting period. The measurement approach in IFRS 17 is based on the present value of probability-weighted cash flows expected to arise as the insurer fulfills the insurance contracts, an explicit risk adjustment for nonfinancial risk, and a contractual service margin representing the unearned profit of those contracts. A simplified measurement approach is permitted if the coverage period is one year or less or if the simplified measurement provides a reasonable approximation to applying the general measurement model.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.