KPMG

NAIC Fall 2024 Meeting

Issues & Trends

Latest actions include adoption of bond disclosure requirements and exposure of new guidance for the Medicare Part D Prescription Payment Plan.

January 2025

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Meeting highlights

During its Fall meeting, on calls before it and on the December 2024 Statutory Accounting Principles Working Group (SAPWG) call, the National Association of Insurance Commissioners (NAIC) **adopted** the following guidance.

- SSAP No. 26 to clarify the disclosure requirements for book adjusted carrying values, fair values, and unrealized gains or losses of bonds.
- INT 24-01 to provide an Implementation Questions and Answers (Q&A) that addresses principles-based bond definition implementation issues.

The NAIC **exposed** revisions to the following guidance.

- SSAP No. 1 and the Annual Statement Instructions to clarify how to report modified coinsurance (Modco) and funds withheld assets.
- Options to clarify guidance for investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries).
- INT 24-02 and revisions to INT 05-05 to add guidance for the Medicare Part D Prescription Payment Program.

The NAIC **discussed** the following guidance.

- SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, Question 10, requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features, and to add a reference to Appendix A-791, paragraph 6.

Accounting highlights >>	
Restricted asset clarifications	SAPWG exposed revisions to SSAP No. 1 and the Annual Statement Instructions to clarify how to report Modco and funds withheld assets.[1] The revisions also include a reconciliation between the restricted assets included in the disclosure and those reported in the general interrogatories. Comments are due January 31, 2025.
Principles-based bond definition disclosure	On a call after the Fall meeting, SAPWG adopted revisions to SSAP No. 26 to clarify the granularity of the disclosure of book adjusted carrying values, fair values, and unrealized gains or losses of bonds.[2] The revisions are effective January 1, 2025.
Capital notes	On a call after the Fall meeting, SAPWG exposed revisions to SSAP No. 41 and the Annual Statement Instructions to clarify the guidance applicable to capital notes.[3] Comments are due January 31, 2025.
New market tax credits	SAPWG adopted revisions to SSAP Nos. 48, 93 and 94 to make the accounting guidance consistent with the journal entry examples.[4] The revisions are effective January 1, 2025.
Book value separate accounts	On a call after the Fall meeting, SAPWG reexposed revisions to SSAP No. 56 to update measurement guidance and to specify the process for the transfer of assets in exchange for cash between the general account and book value separate accounts.[5] Comments are due January 31, 2025.
Risk transfer analysis on reinsurance contracts with interrelated features	On a call after the Fall meeting, SAPWG discussed a proposal to revise SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, Question 10, requiring risk transfer to be evaluated in the aggregate for contracts with

1 SSAP No. 1, Accounting Policies, Risks & Uncertainties and Other Disclosures

2 SSAP No. 26, Bonds

3 SSAP No. 41, Surplus Notes

4 SSAP No. 48. Joint Ventures, Partnerships and Limited Liability Companies; SSAP No. 93, Investments in Tax Credit Structure; SSAP No. 94, Transferable and Non-Transferable State Tax Credits

5 SSAP No. 56, Separate Accounts

Accounting highlights >>	
	interrelated features, and to add a reference to Appendix A-791, paragraph 6.[6] SAPWG will schedule a joint meeting between SAPWG and the Life Actuarial Task Force (LATF) to continue discussions.
Repacks and derivative wrapper investments	SAPWG rejected the previously exposed revisions to SSAP No. 86 that would have required separate accounting and reporting of derivatives included in debt security structures.[7] On the call after the Fall meeting, SAPWG exposed revisions to the Annual Statement Instructions to clarify that debt securities sold to a special purposes vehicle (SPV) and then reacquired with the addition of derivatives or other components would be reported as a disposal and an acquisition in the investment schedules. Comments are due January 31, 2025.
Derivative premium clarifications	SAPWG exposed revisions to SSAP No. 86 to clarify the terminology for financing derivatives and that derivative premiums should not be included in the calculation of realized gain or loss or in the Interest Maintenance Reserve (IMR). Comments are due January 31, 2025.
Investment subsidiary classification	SAPWG exposed a request for comments on options to clarify the guidance for investments in noninsurance SCA entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries). Comments are due January 31, 2025.
Improvements to income tax disclosures	SAWPG adopted revisions to SSAP No. 101 to remove the disclosure requirement for the cumulative amount of each type of temporary difference and to reject ASU 2023-09.[8]
Scope application of profits interest and similar awards	SAPWG exposed revisions to SSAP No. 104, to adopt, with modification, ASU 2024-01 that

6 SSAP No. 61, Life, Deposit-Type and Accident and Health Reinsurance; SSAP No. 62, Property and Casualty Reinsurance, Appendix A-791, Life and Health Reinsurance Agreements

7 SSAP No. 86, Derivatives

8 SSAP No. 101, Income Taxes; ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures

Accounting highlights >>	
	provides clarification on the application of the guidance to profit interests and similar awards.[9] The revisions would be effective December 31, 2025.
Derivatives hedging variable annuity guarantees	SAPWG adopted revisions to SSAP No. 108 to update the definition of a clearly defined hedging strategy (CDHS) to make it consistent with VM-01.[10]
Derivatives used for asset-liability management	On a call after the Fall meeting, SAPWG received comments from interested parties about the proposal to develop new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under SSAP No. 86 but are used for Asset Liability Management (ALM).
Principles-based bond definition Q&A	SAPWG adopted INT 24-01 to provide a Q&A Implementation Guide that addresses the implementation of the principles-based bond definition.[11]
Medicare Part D	SAPWG exposed INT 24-02 and revisions to INT 05-05 to add guidance for the Medicare Part D Prescription Payment Program.[12] The program was effective January 1, 2025. Comments are due January 31, 2025.
IMR Ad Hoc Subgroup update	SAPWG heard an update about the activities of the IMR Ad Hoc Subgroup.
Collateral loan reporting	SAPWG reexposed, without revisions, a proposal to expand reporting of collateral loans on Schedule BA. The reexposure allows concurrent exposure with the Blanks Working Group on its corresponding proposal. Comments are due January 31, 2025.
Issue papers in statutory hierarchy	SAPWG exposed revisions to the NAIC Accounting Practices & Procedures (AP&P) Manual to include issue papers within Level 5 of

[9] SSAP No. 104, Shared-Based Payments; ASU 2024-01, Compensation – Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards

[10] SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees; VM-01, Definitions for Terms in Requirements

[11] INT 24-01: Principles-Based Bond Definition Implementation Questions & Answers

[12] INT 24-02: Medicare Part D Prescription Payment Program, INT 05-05: Accounting for Revenues Under Medicare Part D Coverage

Accounting highlights >>	
	the statutory hierarchy and to clarify guidance on the use and development of issue papers. Comments are due January 31, 2025.
Actuarial highlights >>	
Non-variable annuities	The VM-22 Subgroup reported to LATF the status of the VM-22 field test and the draft VM-22.[13] LATF also heard an update from the VM-22 Model Office. The goal is to adopt VM-22 on a prospective basis with an initial effective date of January 1, 2026, and a three-year implementation period, becoming mandatory for non-variable annuity contracts on January 1, 2029.
Asset adequacy testing	LATF exposed a presentation on asset adequacy testing (AAT) for reinsurance, a draft reinsurance AAT actuarial guideline (the Guideline), and Guideline exposure questions. The Guideline is expected to be effective for the asset adequacy analysis of reserves in the December 31, 2025 Annual Statements and thereafter. Comments were due January 15, 2024.
Generator of Economic Scenarios acceptance criteria	LATF received an update about the Generator of Economic Scenarios (GOES) field test, including observations of the results. The GOES Subgroup will continue to discuss field test results. Work will begin in early 2025 on a proposal to modify the Valuation Manual for GOES, followed by work on changes to the Life RBC requirements.
Negative IMR in asset adequacy testing	LATF reexposed revisions to VM-20 and VM-30 to clarify how negative IMR is reflected in AAT. Comments were due December 2, 2024.

[13] VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities

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Accounting highlights

Restricted asset clarifications

Action. SAPWG exposed revisions to SSAP No. 1 and the Annual Statement Instructions to clarify how to report Modco and funds withheld assets. The revisions also would include a reconciliation between the restricted assets in the disclosure and those reported in the general interrogatories. Comments are due January 31, 2025.

Proposed revisions to SSAP No. 1 include:

- a disclosure of the differences between the amounts disclosed as restricted assets by category (admitted and nonadmitted) and the amounts reported for the same categories in the general interrogatories;
- a clarification that the restricted assets by category disclosure would include assets reported in the financial statements that are pledged to a counterparty which are not covered in other specified categories, including assets pledged under derivative arrangements; and
- a clarification that the restricted asset disclosure includes the amount and nature of assets that are held under Modco or funds withheld reinsurance agreements for which there is a recognized liability to return these collateral assets, or for the dedicated use of those assets under the Modco or funds withheld agreement.

The Annual Statement Instructions include proposed revisions similar to those in SSAP No. 1. The Annual Statement Instructions also includes an illustration of the presentation of all restricted assets reported in the financial statements for comparison of total assets and a new table that allows insurers to explain the differences between the restricted asset disclosure and the general interrogatories. Other revisions to the Annual Statement Instructions include new lines to report the magnitude of ModCo and funds withheld assets on collateral.

Next step. SAPWG expects to send a referral to the Life Risk-Based Capital (RBC) Working Group to clarify that if the ModCo or funds withheld reinsurance asset held as of year-end has been used as a pledged asset for any purpose specific to the ceding insurer at any time during the year, the RBC for the ceding insurer should not be reduced.

Principles-based bond definition disclosure

Action. On a call after the Fall meeting, SAPWG adopted revisions to SSAP No. 26 to clarify the granularity of disclosure of book adjusted carrying values, fair values, and unrealized gains or losses of bonds. The revisions are effective January 1, 2025.

The revisions clarified that the information in the disclosure should be disaggregated by category and sub-category as reported in the Annual Statement Schedule D – Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset Backed Securities).

Interested parties requested a deferral of the proposal, stating that the revisions would produce very granular disclosures in the audited financial statements. They stated that subjecting these processes to audit will result in additional reporting and audit burden disproportionate to the value of these disclosures in the audited financial statements.

However, SAPWG stated that:

- existing guidance in SSAP No. 26 requires a disclosure to be disaggregated by category;
- the disclosure of the expanded categories will ensure that regulators have more transparency into the investments classified as bonds; and
- it would be imperative to ensure that the bonds being reported in those categories represent an accurate, complete picture of those bonds held because regulators may focus enhanced examination procedures on these categories.

Capital notes

Action. On a call after the Fall meeting, SAPWG exposed revisions to SSAP No. 41 and the Annual Statement Instructions to clarify the guidance applicable to capital notes. Comments are due January 31, 2025.

The proposed revisions to SSAP No. 41 would:

- add a footnote stating when INT 24-01 defines an instrument as a capital note;
- clarify that capital notes are to be:
  - combined with other equity items to determine whether the state investment limit for equity investments has been surpassed; and
  - nonadmitted when the regulatory authority halts principal or interest payments;
- clarify the measurement guidance by replacing references to credit rating provider ratings with a reference to NAIC designations;
- update the impairment guidance to include reference to capital notes; and
- remove the disclosure identifying a holder of 10% or more of the outstanding amount of a surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

The proposed revisions to the Annual Statement Instructions for Schedule BA state that:

- the surplus line debentures line includes instruments that qualify as surplus note pursuant to SSAP No. 41; and
- the capital notes line includes debt securities that do not qualify as issued surplus notes under SSAP No. 41, that are treated as regulatory capital by the insurer's primary regulatory authority and that do not qualify under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an event of default.

New market tax credits

Action. SAPWG adopted revisions to SSAP Nos. 48, 93 and 94 to make the accounting guidance consistent with the journal entry examples. The revisions are effective January 1, 2025.

Revisions to SSAP No. 93 clarify that:

- federal tax credits allocated to the insurer are reported as a:
  - reduction to the federal income tax liability and federal income tax expense, if utilized in the same year allocated; or
  - a deferred tax asset (DTA) and change in DTA, if not utilized in the year allocated;
- state tax credits allocated to the insurer are reported as a:
  - reduction to the related state tax liability and state premium tax or state income tax expense, as applicable, if utilized in the same year allocated; and
  - gross of the related state tax liability in the category of other-than-invested assets, if the allocated tax credits are not utilized in the year allocated.

Revision to SSAP No. 94 clarify that:

- a federal tax credit allocated to the insurer is reported as a DTA; and
- state tax credits allocated to the insurer are reported gross of the related state tax liabilities in the category of other-than-invested assets.

Revisions also clarify that the scope of SSAP No. 48 includes investments in joint ventures, partnerships and limited liability companies that allocate tax credits but are not in the scope of SSAP No. 93.

Book value separate accounts

Action. On a call after the Fall meeting, SAPWG reexposed revisions to SSAP No. 56 to update the measurement guidance and to specify the process for the transfer of assets in exchange for cash between the general account and book value separate accounts. Comments are due January 31, 2025.

SAPWG updated the original proposal addressing some of the comments received from interested parties. The additional revisions would:

- clarify that assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account, but do not directly pass all investment experience of the underlying assets to the policyholder, may be recorded, with approval of the state regulator, as if the assets were held in the general account;
- delete reference to the general account providing contract benefits not directly tied to performance of the underlying assets;
- update language that the general account may serve as an overall backstop or may provide an implied guarantee;
- add guidance that other types of asset transfers are recorded at fair value; and
- clarify that contracts for which a state insurance regulator could approve recording the separate account assets at book value are not limited to only those listed in the SSAP and include bank-owned life insurance contracts.

Overall, interested parties supported the proposed revisions to SSAP No. 56. They provided feedback on questions from the previous exposure, including that:

- they did not observe diversity in practice with respect to measuring seed money, however, there is a possibility that the commingling of seed money and policyholder funds within the investment strategy assets has the potential for seed money to be reported at fair value that would not otherwise be recorded at fair value if held directly in the general account; and
- asset to asset swaps, contributions of general account assets to support separate account deficiencies, dividends of assets from separate accounts to the general account are not common and are often subject to the accounting standard outlined within each separate account Memorandum or Plan of Operations. Codification of accounting guidance for these transactions could result in differences from the accounting guidance agreed upon with the domicile state.

Next steps: SAPWG directed NAIC staff to discuss the potential for additional IMR guidance with the IMR Ad Hoc Subgroup.

Risk transfer analysis on reinsurance contracts with interrelated features

On a call after the Fall meeting, SAPWG discussed a proposal to revise SSAP No. 61 to add guidance from SSAP No. 62, Exhibit A Q&A, Question 10, requiring risk transfer to be evaluated in the aggregate for contracts with interrelated features, and to add a reference to Appendix A-791, paragraph 6.

Interested parties expressed concerns, stating that the proposal is not clear about which reinsurance contracts would pass risk transfer and proposed that risk transfer be analyzed both separately and in the aggregate. They said that their primary concern is a possible interpretation that all combination coinsurance and yearly renewable term (YRT) agreements are non-proportional, therefore not providing a reserve credit. They also stated that:

- statutory risk transfer requires a careful evaluation of the facts and circumstances of a reinsurance agreement and should not rely on simplistic 'safe harbor' rules; and
- the proposal may be misinterpreted as requiring an assessment of YRT premiums using a standard other than what currently exists in SSAP No. 61 that precludes ceding insurer surplus loss, which could result in significant differences in regulatory interpretations about what is an 'excessive' YRT premium.

Interested parties proposed an alternative risk transfer framework for assessing combination coinsurance and YRT (Co-YRT) agreements:

- a risk transfer assessment of combination Co-YRT agreements would be conducted in the context of the applicable SSAP guidance and would be based on the facts and circumstances of the relevant reinsurance agreement(s); and
- SSAP coinsurance guidance would be applied to the coinsurance component of the agreement(s) and SSAP YRT guidance would be applied to the YRT component of the agreement(s).

Additionally, an overall assessment of the combined agreement would be performed consistent with the requirement that the agreement constitute the entire agreement between the parties with respect to the reinsured business to ensure that ceding insurer surplus is not deprived.

SAPWG acknowledged interested parties' concerns and decided to continue exposure of the proposal to allow sufficient time to discuss comments from interested parties and receive input from the LATF on the proposal.

Next steps. SAPWG will schedule a joint meeting between SAPWG and the LATF.

Repacks and derivative wrapper investments

Action. SAPWG rejected the previously exposed revisions to SSAP No. 86 that would have required separate accounting and reporting of derivatives included in debt security structures.

Action. On the call after the Fall meeting, SAPWG exposed revisions to the Annual Statement Instructions to clarify that debt securities that are sold to an SPV and then reacquired with the addition of derivatives or other components would be reported as a disposal and an acquisition in the investment schedules. Comments are due January 31, 2025.

The proposed revisions to SSAP No. 86 would have required securities that are not structured notes that have been combined with derivative instruments, for example through a SPV structure, to be bifurcated and reported separately as a debt security and a derivative security. Interested parties expressed significant concern with the proposal including that:

- it would be inappropriate to report the derivative on Schedule DB because an insurer is not the counterparty to the derivative and:
  - the investor does not control or own the derivative directly and reporting the derivative on Schedule DB would be inconsistent with state law;
  - the insurer may not have the information to apply the requisite hedge accounting requirements including determining whether the derivative qualifies as hedging, income generation, or replication transactions; and
  - insurers may need a new category within their derivative use plans.

Interested parties stated that these challenges would create unneeded complexity for insurers when the ‘plain vanilla’ derivatives could be used in replicating a bond through a replication strategy.

Interested parties also stated bifurcating the derivative and the bond in SPVs could create a restricted asset as the derivative has no margin requirement. This could result in an insurer recording a liability which would be inconsistent with the overall approach in statutory accounting and reporting or legal requirements.

Interested parties proposed that insurers that own these types of instruments evaluate the debt instrument in its entirety to evaluate if the structure meets the principles-based bond definition.

Derivative premium clarifications

Action. SAPWG exposed revisions to SSAP No. 86 to clarify the terminology for financing derivatives and that derivative premium should not be included in the calculation of realized gain or loss or in the IMR. Comments are due January 31, 2025.

The revisions propose that:

- unpaid or deferred premiums be considered synonymous with financing premium; and
- derivative premium costs would be:
  - excluded from the realized losses capitalized to the IMR, because they are not considered an underlying in the derivative; and
  - amortized over the life of the derivative contract with the amortization recorded as an adjustment to net investment income or

another appropriate caption within operating income consistent with the reporting of the derivative contract.

Investment subsidiary classification

Action. SAPWG exposed a request for comments on options to clarify guidance for investments in noninsurance SCA entities that hold assets for the benefit of the insurer and its affiliates (investment subsidiaries). Comments are due January 31, 2025.

Option 1. Revise SSAP No. 97 to add guidance for investment subsidiaries that would prescribe the measurement method and potential nonadmittance thresholds if the assets in the investment subsidiary would be nonadmitted if held directly.

Option 2. Sponsor a proposal for changes to the Annual Statement Instructions to add new investment schedules, or expand existing investment schedules, to disclose underlying assets held by an investment subsidiary.

Option 3. Send a referral to the Capital Adequacy Task Force and related RBC Working Group to add details that allow regulators to verify the RBC calculation for underlying assets in investment subsidiaries.

This proposal is in response to questions received by SAPWG about the classification of investment subsidiaries in Schedule D and the Life RBC Formula.

The concept of an SCA that simply holds assets is not currently reflected in SSAP No. 97, however it is included in SSAP No. 25 as an example of a non-economic transaction.[14]

SAPWG stated that a number of issues were identified as a result of questions received and review of existing guidance, including:

- reporting Schedule BA items, in the scope of SSAP No. 48, as investment subsidiaries for RBC look through although those investment should not be captured within this classification because the concept of investment subsidiary is only for those entities in the scope of SSAP No. 97;
- using the concept of an investment subsidiary to avoid statutory accounting provisions for underlying assets but receiving favourable RBC effect as if the SSAP criteria has been met; and
- diversity in practice applying a look-through approach in the asset valuation reserve (AVR) calculation for investment subsidiaries.

Additional questions raised included:

[14] SSAP No. 25, Affiliates and Other Related Parties; SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities

- whether underlying assets within the investment subsidiary are converted to the statutory basis of accounting before computation of RBC charge and how the RBC after covariance is calculated for investment subsidiaries.
- how insurers comply with Life RBC instructions

Questions were also raised about the Annual Statement Instructions on Schedule D-6-1 regarding the imputed value on a statutory basis and the direction for nonadmittance of the excess or reclassification in all other affiliates category.

SAPWG also observed that the amounts reported for investment subsidiaries vary between Schedule D-6-1, AVR and RBC. Based on 2023 filings, the amount reported in the RBC formula is significantly greater than the amount reported on Schedule D-6-1 and through the equity component of AVR.

Improvements to income tax disclosures

Action. SAWPG adopted revisions to SSAP No. 101 to remove a disclosure requirement for the cumulative amount of each type of temporary difference and to reject ASU 2023-09.

ASU 2023-09 was rejected because SAPWG deemed it to not be relevant for statutory accounting. Disclosure about the cumulative amount of each type of temporary difference related to deferred tax liabilities that are not recognized was deleted because the Tax Cuts and Jobs Act made this disclosure irrelevant.

Scope application of profits interest and similar awards

Action. SAPWG exposed revisions to SSAP No. 104 to adopt, with modification, ASU 2024-01 that provides clarification on the application of the guidance to profit interests and similar awards. The revisions would be effective December 31, 2025.

The proposed revisions state that insurers that issue profits interest or similar awards as compensation to employees and nonemployees in exchange for goods or services would follow the guidance in SSAP No. 104 to determine whether the award is a share-based payment transaction in the scope of SSAP No.104.

Derivatives hedging variable annuity guarantees

Action. SAPWG adopted revisions to SSAP No. 108 to update the definition of a CDHS to make it consistent with VM-01.

The revisions state that to qualify as CDHS, the strategy must meet the principles outlined in VM-21, be in place for at least three months and at a minimum identify:

- the specific risks being hedged;
- the hedging objectives;
- the material risks that are not being hedged;
- the financial instruments used to hedge the risks;
- the hedging strategy's trading rules, including permitted tolerances from hedging objectives;
- the metrics, criteria and frequency for measuring effectiveness;
- the conditions under which hedging will not take place and for how long the lack of hedging can persist;
- the group or area responsible for implementing the hedging strategy, including whether internal or external;
- areas where basis, gap or assumption risk related to the hedging strategy have been identified; and
- the circumstances under which the hedging strategy will not be effective in hedging the risk.

Derivatives used for asset-liability management

On a call after the Fall meeting, SAPWG received comments from interested parties about the proposal to develop new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under SSAP No. 86 but are used for ALM.

Currently, macro-hedges do not qualify as effective hedges under the requirements of SSAP No. 86. Interested parties support development of new statutory accounting guidance stating there is a critical need for developing appropriate accounting guidance. They also provided a comment letter outlining the complexities of the topic and suggestions for SAPWG to consider as they develop further guidance.

SAPWG acknowledged that this topic is complex and deferred discussion of the proposal and comments received until the Spring National Meeting.

Principles-based bond definition Q&A

Action. SAPWG adopted INT 24-01 to provide a Q&A Implementation Guide that addresses the implementation of the principles-based bond definition.

The Q&A Implementation Guide includes editorial revisions based on observations from interested parties, and information about how the guidance in the principles-based bond definition should be applied to specific investment structures or characteristics.

Medicare Part D Prescription Payment Plan

Action: SAPWG exposed INT 24-02 and revisions to INT 05-05 to add guidance for the Medicare Part D Prescription Payment Program (MP3). The program was January 1, 2025. Comments are due January 31, 2025.

The revisions to INT 05-05 add a reference to INT 24-02 for guidance on MP3.

The exposed INT 24-02 addresses the MP3 components of Medicare Part D and proposes that MP3 recoverables be:

- accrued and reported as health care and other amounts receivable when the related pharmacy out-of-pocket payment is incurred;
- considered an admitted asset if they are 90 days or less overdue to the extent that they comply with the guidance in the INT;
- nonadmitted if more than 90 days overdue with the due date for aging following the program billing guidelines;
- recorded in the income statement as claims or claims adjusting expenses, if fully collected; and
- evaluated for impairment under SSAP No. 5 with any identified impairment recorded as incurred Medicare Part D prescription drug claims in the income statement.[15]

The INT also states that:

- insurers would record a claims expense, a contra claims expense, and a contra claims expense recoverable when the Part D plan pays out-of-pocket drug claims to the pharmacy; and
- costs of implementing the MP3 program and program collections are included in the administrative expenses of the Part D plan and would not be included in claims expenses or claim adjustment expenses.

IMR Ad Hoc Subgroup update

SAPWG heard an update about the activities of the IMR Ad Hoc Subgroup. The Subgroup stated that its discussions focused on IMR related to reinsurance transactions. It has been reassessing the existing guidance by looking at the intended principles for IMR accounting and reporting for ceding and assuming entities including in the event of recapture. SAPWG stated that it expects to begin discussions of this topic at the Spring National Meeting.

[15] SSAP No. 5, Liabilities, Contingencies and Impairments of Assets

Collateral loan reporting

Action. SAPWG reexposed, without revisions, a proposal to expand the reporting of collateral loans on Schedule BA. Comments are due January 31, 2025.

This reexposure does not amend the previously exposed proposal, rather allows concurrent exposure with the Blanks Working Group on its corresponding proposal. The proposed revisions would delete the existing collateral loan reporting lines and require categorization of collateral loans as unaffiliated and affiliated based on the underlying collateral supporting the loan, such as:

- mortgage loans;
- joint ventures, partners and limited liability companies;
- residual interests;
- debt securities;
- real estate; and
- all other.

The revisions also:

- propose a new category within the AVR reporting schedule to include collateral loans; and
- request comments on:
  - whether collateral loans backed by mortgage loans should be included in the new collateral loan category or continue to be reported in the 'investments with underlying characteristics of mortgage loans' category; and
  - what additional reporting lines of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment.

Interested parties requested input about certain AVR-related elements and provided several editorial changes.

Issue papers in statutory hierarchy

Action. On a call after the Fall meeting, SAPWG exposed revisions to the NAIC AP&P Manual to include issue papers within Level 5 of the statutory hierarchy and to clarify guidance on the use and development of issue papers. Comments are due January 31, 2025.

The proposed revisions modify the Statutory Accounting Principles Preamble and Appendix E of the AP&P Manual to include issue papers within Level 5 of the statutory hierarchy and clarify they are only used and applied as authoritative guidance if they do not conflict with other sources of statutory guidance.

During the Fall National Meeting, NAIC staff stated that a Level 5 classification for issue papers is the most appropriate because:

- issue papers:

- are not always updated after adoption of an SSAP, especially a clarification adoption, and should not be considered more applicable than any other statutory specific guidance, whether or not that guidance is deemed to reflect accounting guidance, reporting instructions or information from the Securities Valuation Office manual;
- should be a viable source for guidance along with non-authoritative GAAP if guidance for a topic is not specifically detailed in any other form of statutory-specific sources;
- should be below the AP&P Manual Preamble and Statement of Concepts, because if there are revisions to the Preamble, those revisions will continue to override any potential conflicts with a previously adopted issue paper.

- if there is a subsequent reporting revision that is not captured in statutory accounting but only reflected in the Annual Statement Instructions, the updated instructions, which are Level 3, should be followed.

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Actuarial highlights

Non-variable annuities

The VM-22 Subgroup reported to LATF that:

- responses have been collected from the VM-22 field test that concluded on September 30, 2024; and
- the draft VM-22 now includes an updated section for additional standard projection amounts and changes based on information from the field test.

The objective of the field test was to measure the effect of the proposed VM-22 reserve and capital framework relative to the current standards to make sure the frameworks are working as intended. Participants in the field test included more than one third of non-variable annuity writers, with representation across all major product categories.

Key decisions that remain to be addressed before VM-22 is presented to LATF include:

- reinvestment mix guardrail;
- threshold percentage and mortality shocks for the stochastic exclusion ratio test;
- withdrawal and surrender assumptions for the additional standard projection amount;
- methodology for longevity reinsurance; and
- purpose of additional standard projection amount.

The Subgroup reported that they are on track to complete VM-22 in mid-2025, with an initial effective date of January 1, 2026 and a three-year implementation period, with it becoming mandatory for new non-variable annuity contracts on January 1, 2029, prospectively.

LATF also heard an update from the VM-22 Model Office that included the following findings:

- most products tested experienced a decrease in reserves when moving from pre-principle-based reserving CARVM to VM-22, and deferred annuities with guaranteed living benefits had the largest decrease;

- fixed deferred annuity and fixed indexed annuity with no withdrawal benefits experienced a small increase to reserves;

- the impacts of testing alternative reinvestment guardrails resulted in slightly lower reserves than the baseline split of 50% A rated bonds and 50% AA bonds; and

- the effect of applying a plus or minus 5% mortality margin did not materially impact the resulting stochastic exclusion ratio for all products.

The aggregated results from field testing are expected to be published in early January 2025.

The objectives of the Model Office include to:

- produce results to analyze the VM-22 framework on a representative set of products under various sensitivities and scenarios,
- provide a first cut of analysis in advance of field test commencement; and
- assess products, scenarios or projections which may not be feasible for participants in the field test.

Next Steps: The Subgroup will hold calls to finalize remaining decisions on the framework, and revisit key elements of the framework, if needed, before submitting recommendations to LATF in 2025.

Asset adequacy testing

Action. LATF exposed a presentation on AAT for reinsurance, a draft reinsurance AAT Guideline, and Guideline exposure questions. The Guideline is expected to be effective for asset adequacy analysis of reserves in the December 31, 2025 Annual Statements and thereafter. Comments were due January 15, 2024.

The exposed AAT presentation outlines areas of focus, the status of current items including discussions and agreements reached on certain topics that were discussed before the Fall meeting including:

- narrowing the scope of the Guideline to include only treaties of certain size;
- restricting cash flow testing requirements to only asset intensive reinsurance;
- applying the requirements of the Guideline to affiliate reinsurance contracts established on or after January 1, 2016 and considering a January 1, 2020 origination date for non-affiliated treaties; and
- allowing a scope exclusion for treaties with assuming insurers submitting a memorandum similar to VM-30.[16]

The exposure stated that the determination of how non-affiliated treaties will be handled under this Guideline will occur after issues related to affiliated treaties have been resolved, estimated to be in first quarter of 2025.

The exposed Guideline would be effective for treaties that are asset intensive transactions ceded to insurers that are not required to submit a VM-30 memorandum, and that meet any of the following criteria, determined by counterparty:

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- in excess of $5 billion of reserve credit or funds withheld or modified coinsurance reserves;
- combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:
  - $1 billion and
  - 2% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves;
- combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:
  - $100 million and
  - 10% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves; or
- combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:
  - $10 million and
  - 20% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves.

It would also apply to asset intensive reinsurance transactions ceded to entities, regardless of treaty date, that result in significant reinsurance collectability risk.

The Guideline also includes a definition of what may be considered a memorandum similar to an actuarial report that is not a VM-30 submission.

The exposure requests comments about:

- differentiating between affiliated and non-affiliated treaties within the Guideline;
- the focus of the Guideline being disclosure for 2025, including the expectation of cash flow testing to be provided in cases to be determined and as tentatively established by the size-based rules included in the Guideline;
- the lack of an expectation for additional reserves being held as a result of the analysis, unless action is requested by the domiciliary regulator;
- the ability for insurers to aggregate analysis by counterparty, not at the treaty level, with consideration that if the insurer or regulators have documented concern that aggregation benefits may not ultimately be realized across different lines of business or product types under moderately adverse conditions, separate cash-flow testing results by line of business or product would need to be produced;
- a requirement for the Appointed Actuary to provide support for their view on aggregation; and

- the example at the end of the exposed presentation, particularly regarding the amount of starting assets that would be part of the cash flow testing to test the post-reinsurance reserve for adequacy.

Background. The goal of the Guideline is for regulators to understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, the regulators identified a risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate a release of reserves. As such, the Guideline proposes enhancements to reserve adequacy requirements for life insurers by requiring that asset adequacy testing use a cash flow testing methodology that evaluates ceded reinsurance as an integral component for asset-intensive business.

Generator of Economic Scenarios (GOES)

LATF received an update about the GOES field test. The field test includes five required runs using new GOES field test scenario sets that test the latest calibration of GOES as of the 2023 year-end, other alternative Treasury starting conditions and an equity market drop sensitivity. There are also seven option field test runs that include additional Treasury, bond and equity sensitivities and a scenario set that uses an alternative initial yield curve fitting methodology. The report included observations that participants:

- commented that a robust model governance framework was needed, which was exposed with comments that were due by November 22, 2024;
- commented that the frequency and severity of negative interest rates were too severe, even with the generalized fractional floor applied to control both the frequency and severity of negative Treasury yields (or UST rates) in the field test scenarios;
- identified increased conservatism or volatility of the field test stochastic exclusion test ratio scenarios compared to the Academy Interest Rate Generator; and
- stated a preference for the ACLI proposed method for the initial yield curve fitting.

The results also showed that the accumulated equity returns of GOES field test scenarios were lower than the average target but were within the acceptable range produced by the alternative models and satisfied the acceptance criteria overall.

Next steps: The GOES Subgroup will continue to discuss field test results. Work will begin in early 2025 on a proposal to modify the Valuation Manual for GOES followed by work on changes to the Life RBC requirements.

Negative IMR in asset adequacy testing

Action. LATF reexposed revisions to VM-20 and VM-30 to clarify how negative IMR should be reflected in AAT. Comments were due December 2, 2024.

The proposed revisions to VM-20 state:

- negative IMR that is admitted would be fully allocated by line of business and would not be allocated to surplus; and
- the amount of starting assets would be reduced by the absolute value of the allocated amount of negative pre-tax IMR (PIMR) and the absolute value of the allocated amount of negative PIMR would then be added as the final step in calculating the modelled reserves.

Similar revisions were also proposed for VM-30.

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Acknowledgments

This edition of Issues & Trends has been produced by the insurance practice of the Department of Professional Practice of KPMG LLP in the United States.

We would like to acknowledge the efforts of the main contributors to this Issues & Trends.

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