

Statutory Issue Paper No. 96

Other Liabilities

STATUS

Finalized March 16, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 67

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Current statutory accounting guidance for the other liabilities is provided in Chapter 17, Other

Amounts Withheld or Retained by Company as Agent or Trustee

8. A reporting entity may, in the normal course of its business, withhold funds as an agent or trustee which will ultimately be paid to others. Amounts withheld or retained by an entity as trustee or agent shall be recorded as a liability when the salaries or other compensation are expensed (8(a and b)) or the funds are received (8(c, d and e)). Examples of such occurrences are:

- a. As an employer, the reporting entity deducts and withholds federal and state income taxes, social security taxes, charitable contributions, savings plan deductions, garnishments, employee contributions to pension plans, employee share of group life and health insurance premiums, and other employee salary withholdings or deductions.
- b. Amounts due under deferred compensation arrangements shall be accrued in accordance with the provisions of *Issue Paper No. 14—Employers' Accounting for Postretirement Benefits Other Than Pensions*.

12. Reinsurance transactions are not considered liabilities of this nature and are covered in *Issue Paper No. 74—Life, Deposit-Type and Accident and Health Reinsurance* and *Issue Paper No. 75—Property and Casualty Reinsurance*.

DISCUSSION

13. This issue paper adopts *FASB Statement No. 116, Accounting for Contributions Received and Contributions made* and *AICPA Statement of Position 96-1, Environmental Remediation Liabilities*.

14. The principles established are consistent with current statutory accounting principles and with Issue Paper No. 5. The requirement that liabilities be recorded when they are incurred is also consistent with the recognition principle described in the Statement of Concepts.

15. The liabilities addressed above are not specifically discussed in GAAP, however, they are considered liabilities and therefore are treated consistently with the GAAP guidance referenced in Issue Paper No. 5. The “Scope of the Statement” section of *FASB Statement No. 5, Accounting for Contingencies*, includes a reference to the fact that self-insurance is covered under the scope of the statement.

Drafting Notes/Comments

- Interest payable on surplus notes is addressed in *Issue Paper No. 41—Surplus Notes*.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

16. Chapter 17, Other Liabilities, of the Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies discusses accounting for other liabilities as follows:

Amounts Withheld or Retained by Company as Agent or Trustee

The life insurance company may, in the normal course of its business, withhold funds as an agent or trustee which will ultimately be paid to others. Funds held must be identified as to whom they are held for, as well as the amount, so that the liability can be confirmed by subsequent payments or confirmation by the payee. Examples of such occurrences are:

1. As an employer, the life insurance company deducts and withholds federal and state income taxes, social security taxes, employee contributions to pension plans, and employees' share of group life and health insurance premiums. Such funds are recorded as a liability of the company at the time gross salaries are expensed and the liability is subsequently cleared by payment.
2. Many life insurance companies invest in commercial and residential mortgages. The company may require the mortgagor to prepay real estate taxes and property insurance premiums which the company will hold in escrow and pay when due.
3. Any other funds the company may receive and hold in a fiduciary capacity.

Remittances and Items Not Allocated

Cash receipts cannot always be identified for a specific purpose or, for other reasons, applied to a specific account when received. It is undesirable, costly, and imprudent for a company to delay depositing such receipts until the payment can be identified. Cash receipts should be deposited intact when received for good accounting control and to be available for investment by the company. It is customary for life insurance companies to maintain one or more liability accounts to record cash receipts which cannot be specifically allocated. Such liability accounts are generally referred to as suspense accounts. Examples of such receipts include:

1. Premium payments received with the application for policies which have not yet been issued;
2. Premium payments of amount different than the amount billed by the company;
3. Unidentified cash receipts.

Special attention should be given to the verification and clearance of suspense accounts. The outstanding suspense items should be aged. Any suspense item that has not been cleared after a specified time should be investigated. If premium payments are allowed to remain in suspense for a long period of time, it is possible that a policy might be improperly lapsed for nonpayment of premium or have nonforfeiture options or automatic premium loan options applied.

Payable to Parent, Subsidiaries and Affiliates

A liability should be established for amounts payable to a parent, subsidiary or affiliate for intercompany disbursements. Examples of such expenses are executive salaries, workers' compensation insurance premiums, pension contributions, etc. The purpose of separating this liability from other accounts is to identify intercompany balances.

17. Chapter 13 of the Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Other Liabilities, discusses accounting for other liabilities as follows:

Other liabilities are those liabilities not specifically covered by other chapters. Included in this category are the following annual statement captions:

Borrowed Money
 Interest Payable
 Stockholder Dividends Declared and Unpaid
 Policyholder Dividends Declared and Unpaid
 Amounts Withheld or Retained by Company for Account of Others
 Provision for Reinsurance
 Excess of Statutory Reserves over Statement Reserves
 Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates
 Liability for Amounts Held Under Uninsured Accident and Health Plans
 Drafts Outstanding
 Payable to Affiliates
 Payable for Securities
 Debt Obligations of Employee Stock Ownership Plans
 Postretirement Benefits Other Than Pensions

Interest Payable

Interest payable includes interest on "Borrowed Money" as well as interest on real estate and surplus loans. It also includes interest on funds held as a deposit or security, such as those held by a ceding company against a reinsurer. Further treatment of funds held by a ceding company may be found in Chapter 22, Reinsurance.

The interest on "Borrowed Money" is also shown parenthetically as part of the caption of this liability item in the annual statement.

Amounts Withheld or Retained by Company for Account of Others

Items to be included under this classification are:

1. Amounts withheld from employee payrolls and unpaid at the balance sheet date. These include federal, state and city taxes and social security taxes, savings bonds deductions, charitable contributions, savings plan deductions, employee retirement plan

not purchase insurance, and the contention that prohibition of accrual will force enterprises to purchase insurance are discussed in paragraphs 61-66. The Board's position regarding periodic accrual for uninsured risks and other loss contingencies on the grounds of spreading the burden of irregularly occurring costs to successive generations of customers or on the grounds of conservatism is discussed in paragraphs 81-84.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance