IP 143R-1

d. *Other premium-based assessments* – Other premium-based assessments shall be accounted for in the same manner as prefunded-premium-based guaranty-fund assessments.

e. *Loss-based assessments* – An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment should recognize a liability as the related loss is incurred.

DISCUSSION

9. Current statutory accounting guidance within SSAP No. 35 rejected the provisions of SOP 97-3, and required assessments for guaranty fund obligations to be accrued at the time of the insolvency, regardless of whether an event that "obligates" the reporting entity (i.e., the writing of premiums) has occurred. This position was considered necessary to be consistent with the concepts of conservatism and recognition outlined in the Statement of Concepts.

10. Before codification (and SSAP No. 35), the statutory accounting practice was driven by the line of insurance written by the reporting entity. For life insurers, assessments were accrued at the time of the insolvency, as the guaranty fund obligations were based on premiums written prior to the insolvency. For property and casualty insurers, the practice varied to reflect when the premiums were written. For assessments based on premiums written after an insolvency, the assessment was accrued when the premiums were written, as this was considered the event that obligated the entity.

11. Interested parties have identified that after the adoption of SSAP No. 35, property and casualty insurers have been able to develop estimates of their respective market shares, but that these insurers have had difficulty in trying to estimate the ultimate loss expected from insolvencies. Although property and casualty insurers have worked with the National Conference of Insurance Guaranty Funds (NCIGF) and various State Guaranty Fund Associations in an attempt to obtain additional information related to the ultimate loss expected from insolvencies, the rate information provided by the NCIGF does not extend beyond one year. Additionally, the NCIGF information does not provide sufficient data to allow for the calculation of an ultimate expected assessment exposure, which is necessary to meet the SSAP No. 35 requirements.

12. Interested parties also identified that the range of outcomes among property and casualty insurers illustrates that there is a lack of consistency of estimates among these reporting entities. This lack of consistency creates concern as to the extent SSAP No. 35 can be applied reliably. Based on the request of interested parties, the Statutory Accounting Principles (E) Working Group formed the Guaranty Fund (E) Subgroup to review the current statutory requirements within SSAP No. 35 and reconsider the adoption of SOP 97-3 (ASC 405-30).

13. To complete an assessment, the Subgroup conducted state surveys and received information from the NCIGF. In considering the results of state surveys, several states noted that waiting to record prospective-based guaranty fund assessments until the obligating premium was written would not impact their assessment of the insurers. A few states indicated that waiting would actually improve their assessment of the insurer as the liability information would be more accurate. In contrast, two states specifically noted that insurers should not wait to record the liability on their financial statements, and thus favored the current SSAP No. 35 approach.

14. After considering the presentation by NCIGF, the Subgroup concluded that in addition to mirroring the GAAP requirements, adopting the approach within ACS 405-30 (SOP 97-3) would result with the recognition of liabilities that are better estimates, more consistently determined, and more verifiable than the existing statutory approach.

a. *Better Estimates* - Using the current approach, it has been communicated that insurers do not have adequate information to calculate ultimate expected assessment exposure as of the liquidation date. It has been communicated that relying on the last annual statement filed of the insolvent insurer would not be timely or provide the best estimate for assessments. This is due to limited filed financial statement information, if any, if rehabilitation or runoff has occurred prior to insolvency. Insurers have communicated that they can use the NCIGF "Assessment Liability Report" to estimate their assessment liabilities and that this report is accepted by auditors as support for determining assessment liabilities under ACS 405-30 (SOP 97-3).

b. *More Consistently Determined* – The guaranty associations determine annually how much to assess the insurance industry according to their funding needs. State laws establish the maximum assessment percentage that can be assessed by a guaranty association per year. Under the prospective assessment method, used by 54 of the 57 guaranty associations (as reported by the NCIGF), the assessment amount is a percentage of direct written premiums for the prior year for lines covered by the guaranty association. Assessments received by the guaranty association in a particular year are used to fund claims originating from all insolvencies, regardless of when those insolvencies occurred. Prospective-premium based assessments are assessments made on premiums written after an insolvency occurs; assessments in any year are generally limited to a percentage of premiums written the year before the assessment is made.

c. *More Verifiable* – It has been communicated that utilizing the GAAP method improves the auditability of property and casualty insurer estimates as the information is based on "real" data. As previously stated in this issue paper, it has been communicated that the information provided by the NCIGF, which is in accordance with the GAAP standards, is accepted as support for the insurance company's assessment liability.

15. The Subgroup also noted that the inconsistencies in reporting and the lack of verifiable information reduced the conservative benefits received under the existing guidance in SSAP No. 35. As the result of these findings, the Subgroup agreed to present an Issue paper to the Working Group proposing substantive revisions to SSAP No. 35 to incorporate the ASC 405-30 (SOP 97-3) approach for guaranty fund liability recognition. Under this approach, accounting requirements for guaranty fund assessments would be determined in accordance with the type of guaranty-fund assessment imposed, and incorporate the concept of an 'obligating event' for prospective-based premium assessments in determining whether liability accrual should occur.

16. Exhibit A includes the proposed substantive revisions to reflect the adoption with modification of ASC 405-30 (SOP 97-3), in the form of *SSAP No. 35R—Guaranty Form and Other Assessments – Revised* (SSAP No. 35R). The substantive revisions are proposed to be initially effective for the reporting period beginning January 1, 2011.

17. Statutory accounting modifications from ASC 405-30 (SOP 97-3) are as follows:

a. The option to discount accrued liabilities (and reflect the time value of money of anticipated recoverables) is rejected for statutory accounting. Liabilities for guaranty funds or other assessments shall not be discounted.

b. The use of a valuation allowance for premium tax offsets and policy surcharges no longer probable for realization has been rejected for statutory accounting. Evaluation of assets shall be made in accordance with SSAP No. 5, and if it is probable that the asset is no longer realizable, the asset shall be written off and charged to income in the period the determination is made.

c. Guidance within ASC 405-30 pertaining to noninsurance entities has been rejected as not applicable for statutory accounting.

18. SSAP No. 35 has three statutory accounting interpretations (INTs). No revisions are considered necessary to these interpretations as a result of the s

allows for the recognition of an asset for these credits and policy surcharges when it is probable that a paid or accrued assessment will result in a receivable/surcharge that will be collected in the future. The amount that SSAP No. 35R allows to be recognized as an asset takes into consideration various factors such as current state law, projections of future premium collections or policy surcharges from in-force policies when determining the future ability to realize the tax credit. SSAP No. 35R, paragraph 10, allows two types of assets:

a. An asset based on paid assessments which are recoverable from future premium tax recoverables and policy surcharges which will be collected in the future. Since this is based on paid assessments, the type of guaranty fund assessment (retrospective, prospective, etc.,) does not impact the ability to recognize an asset.

b. An asset based on accrued liability assessments which are recoverable in a future period from in-force business. As this asset is based on liability accruals, the type of assessment (retrospective or prospective) is a factor for this allowance. This is the asset under discussion.

25. Assets Accrued Based on Premium – For retrospective-premium-based assessments, an asset can be recognized at the time the liability is recorded, to the extent that it is probable that accrued liability assessments will result in a recoverable amount in a future period from business currently in-force. Pursuant to the prior guidance in SSAP No. 35R, paragraph 10.b.i., which excluded expected renewals of short-term contracts, writers of long-duration products were allowed to accrue a larger asset. Different accounting treatment arises under paragraph 10.b.i. for health writers relative to life writers when the insolvency of a company that wrote long-duration contracts (such as long-term care) is funded by companies that write primarily short-duration contracts, such as health contracts. Because a life insurance company's in-force business typically consists of long-duration contracts, the life company is allowed to take into consideration future years premium renewals using persistency rates in determining the amount of the asset that can be recognized under paragraph 10.b.i. However, because a health company's in-force business typically consists of short-duration contracts, the health company is limited to generally one year of premiums—the amount of premiums generated by its in-force short-term contracts. As a result, for an identical accrued guaranty fund assessment, a life insurer is allowed to recognize a much larger asset when the liability is initially recorded relative to a health writer.

26. U.S. GAAP to SAP Difference – SSAP No. 35R, paragraph 10, is based on existing U.S. GAAP guidance in *Accounting Standards Codification 405-30, Insurance Related Assessments* (ASC 405-30-30-11), and also prohibits the consideration of expected renewals of short-term contracts. With the proposed revisions to SSAP No. 35R under agenda item 2016-38, narrow and specific modifications from U.S. GAAP are proposed to allow assets based on expected renewals for short-duration contracts under statutory accounting. This change would make the U.S. GAAP balance sheet asset lower and more conservative than the statutory accounting balance sheet asset for writers of short-duration contracts.

Working Group Actions

27. When SSAP No. 35R was substantively revised, effective for January, 1, 2011, as documented in this issue paper, consideration was given to U.S. GAAP in establishing the guidance. Industry comments received (which also supported admission of the asset) identified why the provisions were established for long-duration contracts, rather than short-term contracts:

> The terms and conditions (as well as the duration) of policies written by life insurers differs significantly from those written by property and casualty companies in that life policies are long-term and of a nature such that it is in the policyholder's best interest to keep a policy in force to

premiums such as renewals should be included in the estimate of the premium tax credit and the asset for in-force life insurance cont0l2ts.

32. SSAP No. 35R prohibits discounting, but U.S. GAAP *Accounting Standards Codification (ASC) 405-30, Insurance-Related Assessments*, 405-30-30-9 and 405-30-30-10 allow the option of discounting

b. Discount Rate – The Working Group exposed applying the whole life discount rate in effect as of the date of the insolvency recognition. The reasoning for this is that the Health Insurance Reserves Model Regulation (Model #10) states, in section 4B (1) (b), that the maximum interest rate for health insurance contract reserves is specified in the Model's Appendix A, Specific Standards for Morbidity, Interest and Mortality. In turn, Appendix A stipulates that the maximum interest rate for contract reserves is the maximum allowed by the Standard Valuation Law (Model #820) in the valuation of whole life insurance. The corresponding references in the *Accounting Practices and Procedures Manual* are in Appendix A-010, paragraph 36, and Exhibit I, paragraph 3.

The pertinent sections of Model #820 that provide guidance in the determination of the maximum interest rate for whole life insurance are subsection B(1)(a), subsection B(2), subsection C(1)(a) and subsection D(1)(a) of Section 4b, Computation of Minimum Standard by Calendar Year of Issue. In the *Accounting Practices and Procedures Manual* these sections are also represented in Appendix A-820 paragraphs 5.a., 6.a. and 7.a. The relevant quotes from the *Accounting Practices and Procedures Manual Appendix A – Excerpts of Model Laws* were included in the proposed changes.

The "whole life discount rate" is the maximum statutory valuation interest rate prescribed under the Standard Valuation Law for Long-Term Care policies. This rate is determined by calendar year and is formula driven. Although the long-term care reserves and guaranty fund assessments are fundamentally different liabilities, the whole life rate would be consistent with the rate required for long-term care liabilities and is a rate that can be consistently determined. In discussing this issue with a few actuaries, it seems to be the most relevant discount rate.

Model #820 applies a rate that is determined at the date of policy issuance. For active life reserves, the calendar year rate at time of issue (or reserve set-up in this case) is appropriate. For calendar years 2013-2017, the rate is 3.5%. In this case the "date of issuance" was initially proposed to be the date of the liability recognition for the insolvency by the reporting entity. The whole life rate in effect on the date of the specific insolvency was proposed to be a locked-in discount rate applied for all future reporting periods. (Note per March 2017 discussion update, the discount rate would be based on the current whole life rate in effect as of each reporting date.)

If the guaranty association requires prefunding (pay all at once), discounting the liability is not proposed to be required. However, consistent with the ASC 405-30, paragraph 30-

and liabilities, the discount rate applied to each insolvency; a description of the estimated discount time periods used for the assets and liabilities on a jurisdiction-by-jurisdiction basis; how the time periods were determined; and changes to the discount time periods used for the assets and liabilities from the prior reporting period.

37. February 2017 – The Working Group received and considered the following comments:

a. Interested parties of the Working Group noted support for the proposal. The comment letter noted concern that the exposed SSAP No. 35R paragraph 18.e.iii. disclosure, which would require companies to provide a breakdown of the assets and liabilities by jurisdiction, was too granular and questioned how the disclosure would enhance solvency supervision. In addition, interested parties noted the disclosures of gross and discounted assessment liability and information on the estimated discount periods would prove challenging if it is not provided by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA).

b. The two large health industry insurance groups also expressed support for the proposal and made a similar comment to the interested parties regarding the granularity of the disclosure in paragraph 18.e.iii. The letter also recommended that the Working Group bifurcate how the discount rate is determined to have the rate in effect at initial recognition and which would have all entities move to the rate in effect at the date of liquidation to ensure that all entities would apply the same long-term rate for the particular insolvency.

38. March 2017 – Comments were received from interested parties, which included representation from two large health insurance groups, noting support for adopting the exposed language to be effective for first quarter 2017 reporting.

39. March 2017 – Comments from two funded consumer representatives were received which recommended rejection of the change pending a more thorough and broader analysis. In providing more context to the discussion, NAIC staff noted the following:

a. Liabilities – The March 2017 estimate of the Penn Treaty insolvency, which is the current long-term care insolvency, is $4.2 billion. Applying the current whole life discount rate of 3.5% would reduce the estimated liability (assuming a 20-year payout) to approximately $2.1 billion. The exact number of years of the assessments is unknown. Different state guaranty associations will employ different strategies for funding.

b. Assets – Determining the asset impact is more complex; however, broadly it can be noted that the discounted assets will not completely offset the discounted liabilities and will have to be discounted for a longer time period than the discounted liabilities.

c. At least three states do not provide tax credits for payments to guaranty associations, but the majority of states do allow future tax credits from guaranty fund payments to be used over time. The use of tax credits is generally spread out over a number of years after payment. However, this varies by jurisdiction.

d. Life entities and health entities do not have the same premium renewal or persistency rates. So the discounted assets will be similar but not the same between different lines of business.

e. Scope – The Working Group discussed that it did not want to pursue a broader carve-out for other long-tailed lines of business at this time because not all long-tailed lines (e.g., workers comp and med mal) use retrospective assessment. Therefore, the scope of the

proposed change will apply to all entities subject to assessments for insolvent entities that wrote long-term care products. The adopted revisions provided equal relief but the issue is more important for short-term products, which may not have been priced with these anticipated assessments.

40. March 2017 – The Working Group adopted the discounting language illustrated in Exhibit C of this issue paper related to long-term care guaranty fund assessments and the related asset and adopted disclosures, with an effective date of first quarter 2017 reporting. The Working Group noted that the discounting is for long-term care assessments that will be paid over a number of years. Discounting the long-term assessments which are payable in excess of 12 months at a conservative and consistent rate specified by the whole life discount rate in effect as of the reporting date was deemed a reasonable accommodation to an industry request regarding an historically large insolvency. This would allow the assessed entities to reflect a liability that is somewhat consistent with the insolvent entity (which reflects a discounted reserve liability). The same whole life discount rate would be applied by all entities. The discount rate that was adopted was for the whole life discount rate that is in effect as of the reporting date. This rate will move over time and is different than the initial proposed use of the whole life discount rate which would have been locked in as of the date of recognition of the insolvency.

41. In adopting the proposal the Working Group noted that the revisions will ensure a level playing field as all entities subject to the assessment would apply the same conservative discount rate (the whole life discount rate as of the reporting date). Furthermore, the disclosures will allow for adequate tracking of the discounted and undiscounted amounts.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

42. SSAP No. 35 provides the following guidance:

> 1. This statement establishes statutory accounting principles for guaranty fund and other assessments.
>
> 2. Guaranty fund assessments represent a funding mechanism employed by states to provide funds to cover policyholder obligations of insolvent reporting entities. Most states have enacted legislation establishing guaranty funds for both life and health insurance and for property and casualty insurance to provide for covered claims or to meet other insurance obligations of insolvent reporting entities in the state. Guaranty funds generally make assessments after an insolvency based upon retrospective premium writings.
>
> 3. This statement addresses other assessments including but not limited to workers' compensation second injury funds and for funds that pay operating costs of an insurance department, a state guaranty fund, and/or the workers' compensation board. This statement also addresses health related assessments including but not limited to state health insurance high-risk pools, health insurance small group and individual reinsurance pools, state health demographic or risk adjustment assessments.
>
> SUMMARY CONCLUSION
>
> 4. This statement applies *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5) to guaranty fund and other assessments. SSAP No. 5 requires accrual of a liability when both of the following conditions are met:
>
> > a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events]TJ-9()]TJ0avacwo

Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement. The asset shall be established and reported independent from the liability (not reported net).

10. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for the fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:

a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and

b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.

Disclosures

11. Describe the nature of any assessments that could have a material financial effect and state the estimate of the liability or that an estimate cannot be made. To the extent assessments have been accrued disclose the amounts of the liabilities, any related asset for premium tax credits or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

12. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

13. This statement rejects GAAP guidance for recording guaranty fund and other assessments, which is contained in *AICPA Statement of Position 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*.

Generally Accepted Accounting Principles

43. *Accounting Standards Codification 405-30, Insurance-Related Assessments* (ASC 405-30) provides the following guidance:

405-30-05 Overview and Background

05-1 Insurance entities as well as noninsurance entities are subject to a variety of assessments related to insurance activities, including those by state guaranty funds and workers' compensation second-injury funds. Some entities may be subject to insurance-related assessments because they self-insurrantu05.3asussm

a. *Retrospective-premium-based assessments*. Guaranty funds covering benefit payments of insolvent life, annuity, and health insurance entities typically assess entities based on premiums written or received in one or more years before the year of insolvency. Assessments in any year are generally limited to an established percentage of an entity's average premiums for the three years preceding the insolvency. Assessments for a given insolvency may take place over several years.

b. *Prospective-premium-based assessments*. Guaranty funds covering claims of insolvent property and casualty insurance entities typically assess entities based on premiums written in one or more years after the insolvency. Assessments in

such level. The base year of premiums is generally either the current year or the year preceding the assessment.

b. *Loss-based*. The assessing entity imposes the assessment based on the entity's incurred losses or paid losses in relation to

already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. *Prospective-premium-based guaranty-fund assessments*. The event that obligates the entity for the assessment li

25-10 An asset shall not be established for paid or accrued assessments that are recoverable through future premium rate structures.

25-11 Policy surcharges that are required as a pass-through to the state or other regulatory bodies shall be accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed (meaning, similar to accounting for sales tax).

405-30-30 Initial Measurement

Estimating the Liability
30-1 Entities subject to assessments may be able to obtain information to assist in estimating the total guaranty-fund cost or the following years' assessments, as appropriate, for an insolvency from entities such as the state guaranty fund associations, the National Organization of Life and Health Insurance Guaranty Associations, and the National Conference of Insurance Guaranty Funds.

30-2 An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund will incur costs and pay claims that will determine the amounts and the timing of assessments.

30-3 The best available information about market share or premiums by state and premiums by line of business shall be used to estimate the amount of an insurance entity's future assessments.

30-4 If a noninsurance entity's assessments are based on premiums, it may be necessary to consider the amount of premium the self-insurer would have paid if it had insured its liability with an insurer. If a noninsurance entity's assessments are based on losses, it shall consider the losses that have been incurred by the entity when determining the liability. Most often, assessments that have an impact on noninsurance entities that self-insure workers' compensation obligations are for second-injury funds. Second-injury funds generally assess insurance entities and self-insurers based on paid losses.

30-5 A noninsurance entity may develop an accrual for its second-injury liability based on any of the following:

a. The ratio of the entity's prior period paid workers' compensation claims to aggregate workers' compensation claims in the state that was used as a basis for previous assessments

b. Total fund assessments in prior periods

c. Known changes in the current period to either the number of employees self-insured by the entity or the number of workers who are the subject of recoveries from the second-injury fund that might

a. Limitations, as provided by statute, on the amount of individual contract liabilities that the guaranty fund will assume, that cause the guaranty fund associations' liability to be less than the amount by which the entity is insolvent

b. Contract provisions (for example, credited rates) that may be modified at the time of the insolvency or alternative payout options that may be offered to contract holders that affect the level and payout of the guaranty fund's liability

c. The extent and timing of available re

longer probable of realization. Considering expected future premiums other than on in-force policies in evaluating the recoverability of premium tax offsets or policy surcharges is not appropriate.

405-30-50 Disclosure

50-1 Sections 275-10-50 and 450-20-55 address disclosures related to loss contingencies. That guidance is applicable to assessments covered by this Subtopic. Additionally, if amounts have been discounted, the entity shall disclose in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used. If amounts have not been discounted, the entity shall disclose in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

405-30-55 Implementation Guidance and Illustrations

Illustrations

Example 1: Prospective-Premium-Based Assessment

55-1 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a prospective-premium-based assessment. This kind of assessment is considered prospective because the assessment relates to premium written after the insolvency. As a result of insolvencies in prior years, ABC Property & Liability Insurance Company (ABC) expects to be assessed in the future by the guaranty fund in a state where it writes premiums. Any such assessments will be limited to 2 percent of premium writings in the prior year and are recoverable through premium tax offsets on a ratable basis over the 5-year period following the year of each assessment.

55-2 Although it does not expect to do so, ABC is free to cease writing the lines of business that are subject to the guaranty-fund assessments.

55-3 As of December 31, 19X0, ABC has neither paid nor received a notice of an assessment related to the insolvencies. Based on communications from the state guaranty association, ABC expects to receive an assessment in 19X1, which is allocated among entities based on 19X0 market share, for at least 1 percent of 19X0 premiums that are subject to the assessment. A best estimate cannot be determined, and no amount within the range of estimates (meaning, from 1 to 2 percent of 19X0 premiums) is a better estimate than any other amount, therefore the minimum amount in the range shall be accrued.

55-4 As of December 31, 19X0, ABC should recognize a liability equal to 1 percent of the premiums written in 19X0 that are subject to the assessment. No additional liability should be recognized, and no asset related to the premium tax offset should be recognized. Disclosure of the loss contingency of up to an additional 1 percent of the subject premiums should be considered.

55-5 ABC would recognize a liability only for those future assessments it is obligated to pay as a result of the premiums written. Because ABC is not obligated to write any future premiums, its liability is limited to that related to premiums written in 19X0. Because no amount within the range of estimates is a better estimate than any other amount, the minimum amount in the range is accrued. Further, because the premium tax offset is realizable only on business that will be written in the future (that is, 19X2 and subsequent years), no asset or receivable is recognized as of December 31, 19X0.

Example 2: Retrospective-Premium-Based Assessment

55-6 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a retrospective-premium-based assessment. As a result of an insolvency that occurred during 19X0, DEF Life and Health Insurance Company (DEF) expects to be assessed in the future by the guaranty fund in a state where it has written business. Any such assessment will

be based on DEF's average market share, determined based on premiums that are
assessment for the three years before the insolvency, and limited to 2 percent 2-72586.38 00
annual subject premiums for the three years before the insolvency. Further, such
are recoverable through premium tax offsets over the five-year period followin
payment for each assessment.

55-7 As of December 31, 19X0, DEF has not paid or received a notice of a
related to the insolvency. Based on initial input from the National Organization of L
Insurance Guaranty Associations and experience with other insolvencies, DEF ass
first assessment will not be made until 19X3 and that it will take three to five annua
for the guaranty fund to be able to meet its obligations. Based on the estimated nati
the insolvency and the distribution of the insolvent entity's business, DEF esti
assessment will be at least 1 percent of the average annual premiums that are
assessment. No amount within the range of estimates (meaning, from 1 to 2
average annual premiums for 3 to 5 years) is a better estimate than any other am
the minimum amount in the range shall be accrued.

55-8 As of December 31, 19X0, DEF should recognize a liability for 3 years of a
1 percent of the average annual premiums that are subject to the assessmen
assessments expected in 19X3, 19X4, and 19X5). Disclosure of the loss co
additional assessments (meaning, in 19X6 and 19X7) or assessment
the average annual premiums that are subject to the assessment shou
related to premium tax offsets that are available on accrued asses
provided there were sufficient premium taxes based on business in fo
(with assumed levels of policy retention), to allow realization of the ass

55-9 The resulting recognized liability and asset are as follows (sh
and undiscounted basis, based on paragraphs 405-30-30-9 thro
optional), assuming average annual subject premiums of $100,000
insolvency.

55-10 DEF would record a liability for all future assessments related
no amount within the range of estimates (meaning, from 1 to 2 perc
premiums for 3 to 5 years) is a better estimate than any other amou
the range (meaning, 1 percent per year for 3 years of assessments) is

55-11 Since it is assumed that based on the anticipated levels o
business in force at December 31, 19X0, there will be sufficient **prem**
tax offset, the premium tax offset is recorded.

Example 3: Loss-Based Assessment

55-12 This Example illustrates application of the recognition and measurement guidance in this Subtopic to a loss-based assessment. GHI Industrial Company (GHI) is self-insured for workers'

EXHIBIT A – ILLUSTRATION OF 2010 REVISIONS TO SSAP NO. 35R

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Exhibit A – Primary Methods of Guaranty Fund Assessments:

a. *Retrospective-premium-based assessments* - Guaranty funds covering benefit payments

EXHIBIT B – ILLUSTRATION OF 2016

11. An evaluation of assets recognized under paragraph 10 shall be made in accordance with SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) to determine if there is any impairment. If, in accordance with SSAP No. 5R, it is probable that the asset is no longer realizable, the asset shall be written off to the extent it is not realizable and charged to income in the period the determination is made. Considering expected future premiums other than on in-force policies for long-duration contracts in evaluating recoverability of premium tax offsets or policy surcharges is not permitted. For short-term health contracts subject to long–term care assessments, appropriate renewal rates may be considered in evaluating recoverability of premium tax offsets or policy surcharges.

Relevant Literature

17. This statement adopts GAAP guidance for recording guaranty fund and other assessments, which is contained in Accounti

principle. The cumulative effect recognized through surplus from initial application of this Statement shall reflect the removal of liabilities established under SSAP No. 35, and the re-establishment of liabilities required under SSAP No. 35R. If there is no change in the liabilities recognized (for example, retrospective-premium based assessments), no cumulative effect adjustment shall occur. With regards to assets, the entity shall complete an assessment of the SSAP No. 35 asset reported as of the transition date. If it is determined that the reported asset exceeds what is allowed under SSAP No. 35R, then the excess asset shall be written-off, through unassigned funds, so the ultimate asset reflected corresponds with what is permitted under SSAP No. 35R. Although it is possible that the excess asset will be reinstated once the liability assessment is recognized (prospective-premium based assessments), it is inappropriate to continue to reflect an asset for assessments that are not reflected within the financial statements. The guidance in paragraph 13 adopted with modification Emerging Issues Task Force No. 06-3: How Taxes Collected from Customers and Remitted to Governmental Authorities

EXHIBIT C – ILLUSTRATION OF 2017 REVISIONS TO SSAP NO. 35R

March 16, 2017, adopted language from agenda item 2017-01 regarding discounting of long-term care assessments:

SUMMARY CONCLUSION

4. This statement adopts with modification guidance from Accounting Standard Codification 405-30, Insurance-Related Assessments (ASC 405-30) as reflected within this SSAP. Consistent with ASC 405-30-25-1, entities subject to assessments shall recognize liabilities for insurance-related assessments when all of the following conditions are met (paragraph 17~~14~~ provides guidance on applying the recognition criteria):

   a. An assessment has been imposed

event that obligates an entity. The following defines the event that obligates an entity to pay an assessment:

a. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or

b. For assessments with liabilities recognized under paragraph 4, disclose the amount of the recognized liabilities, any related asset for premium tax credits or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

c. Disclose assets recognized from paid and accrued premium tax offsets or policy surcharges, and include a reconciliation of assets recognized within the previous year's annual statement to the assets recognized in the current year's annual statement. The reconciliation shall reflect, in aggregate, each component of the increase and decrease in paid and accrued premium tax offsets and policy surcharges, including the amount charged off.

d. Disclosures shall be made in accordance with paragraph 27 of SSAP No. 5R when there is at least a reasonable possibility that the impairment of an asset from premium tax offsets or policy surcharges may have been incurred.

e. The financial statements shall disclose the following related to guaranty fund liabilities and assets related to assessments from insolvencies of entities that wrote long-term care contracts. The disclosures shall be by insolvency except for paragraph 18.e.ii., which is the same rate for all discounted insolvencies:

i. The undiscounted and discounted amount of the guaranty fund assessments and related assets;

ii. The discount rate applied as of the current reporting date (determined in accordance with paragraphs 12-14);

iii. The number of jurisdictions for which the long-term care guaranty fund assessments payables were discounted and the number of jurisdictions for which asset recoverables were discounted;

iv. Identify the ranges of years used to discount the assets and the range of years used to discount the liabilities;

v. The weighted average numbers of years of the discounting time period for long-term care guaranty fund assessment liabilities; and

vi. The weighted average number of years of the discounting time period for the asset recoverables.

Illustration of paragraph 18.e.iii. through paragraph 18.e.vi. disclosures.

Name of the Insolvency	Payables			Recoverables		
	Number of Jurisdictions	Range of Years	Weighted Average Number of Years	Number of Jurisdictions	Range of Years	Weighted Average Number of Years
ABC Estate	10	2-10	8	8	5-20	10

~~16~~19. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~17~~20. This statement adopts GAAP guidance for recording guaranty fund and other assessments, which is contained in *Accounting Standards Codification 405-30, Insurance Related Assessments* (ASC 405-30) to the extent reflected in this SSAP. Statutory accounting modifications from ASC 405-30 are as follows:

a. The option to discount accrued liabilities (and reflect the time value of money in anticipated recoverables) is rejected for statutory accounting. Liabilities and assets related to assessments from insolvencies of entities that wrote long-term care contracts are required to be discounted as described in paragraphs 12-14, however, other liabilities for guaranty funds or other assessments shall not be discounted.

b. The use of a valuation allowance for premium tax offsets and policy surcharges no longer probable for realization has been rejected for statutory accounting. Evaluation of assets shall be made in accordance with SSAP No. 5R, and if it is probable that the asset is no longer realizable, the asset shall be written off and charged to income in the period the determination is made.

c. Guidance within ASC 405-30 pertaining to noninsurance entities has been rejected as not applicable for statutory accounting.

d. Guidance within ASC 405-30 pertaining to accrual of an asset based on future renewals of premium is modified to allow accrual of the asset based on in-force short-term health contract renewals in instances when retrospective-premium-based assessments are imposed on short-term health contracts for the insolvencies of insurers that wrote long-term care contracts .

~~18~~21. This statement also adopts with modification *Emerging Issues Task Force No. 06-3: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)* (EITF 06-3), now included in *Accounting Standards Codification 605-45, Revenue Recognition, Principal Agent Considerations* to the extent reflected in paragraph 16~~13~~ of this statement.

Effective Date and Transition

~~19~~22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Substantive revisions to paragraphs 4, 6, 7, 8, 10, 11, 17~~14~~ and 18~~15~~ as documented in Issue Paper No. 143R are initially effective for the reporting period beginning January 1, 2011. The result of applying this revised statement shall be considered a change in accounting principle in accordance with SSAP No. 3. Pursuant to SSAP No. 3, the cumulative effect of changes in accounting principles shall be reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect recognized through surplus from initial application of this statement shall

Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation) and was incorporated from INT 07-03 and effective September 29, 2007. The Section 9010 ACA fee has specific guidance (adopted December 2013) that was effective for annual reporting periods beginning January 1, 2014, and was moved to SSAP No. 106 in June 2014. As documented in Issue Paper No. 143R, ~~M~~modification of the adoption of ASC 405-30 to allow accrual of the asset based on in-force short-term health contract renewals in instances when retrospective-premium-based assessments are imposed on short-term health contracts for the insolvencies of insurers that wrote long-term care contracts as described in paragraphs 10.b.i, 11 and ~~17~~20.d. are initially effective for reporting periods beginning on or after January 1, 2017. Although the ASC 405-30 option to discount liabilities is still rejected, effective for reporting periods after January 1, 2017, reporting entities are required to discount guaranty fund assessments, and related assets, resulting from the insolvencies of insurers that wrote long-term care contracts, in accordance with the provisions of paragraphs 12-14 of this statement, as documented in Issue Paper No. 143R.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 35–Accounting for Guaranty Fund and Other Assessments*
- *Issue Paper No. 143R~~–Prospective-Based~~ Guaranty Fund Assessments*
- *Issue Paper No. 148–Affordable Care Act Section 9010 Assessment*