Statutory Issue Paper No. 154

Implementation of Principle-Based Reserving

STATUS
Finalized – December 10, 2016

Original SSAP and Current Authoritative Guidance: SSAP No. 51, SSAP No. 54, with additional revisions summarized in Exhibit C.

Type of Issue:
Life, Accident and Health

SUMMARY OF ISSUE

1. Current statutory accounting guidance for life insurance contracts is in *SSAP No. 51—Life Contracts* (SSAP No. 51). This guidance refers to existing model laws for reserving guidance which are primarily based on formulaic methodology. As directed by the Statutory Accounting Principles (E) Working Group on November 19, 2015, multiple agenda items were drafted to incorporate revisions needed for statutory accounting to facilitate the implementation of principles-based reserving (PBR).

2. This issue paper documents, for historical purposes, substantive revisions adopted in SSAP No. 51 for principle-based reserving. To facilitate timely adoption of the authoritative guidance, this issue paper was drafted subsequent to the adoption of the changes to SSAP No. 51R.

3. In addition, Exhibit C of this issue paper provides an overview of other revisions adopted to the NAIC *Accounting Practices and Procedures Manual* for principle-based reserving.

SUMMARY CONCLUSION

Substantive Revisions to SSAP No. 51

4. As shown in Exhibit A, this issue paper documents the substantive revisions to SSAP No. 51 (resulting in a substantively revised SSAP No. 51R) in order to allow principle-based reserving as specified in the *Valuation Manual*. These revisions have a January 1, 2017, effective date.

Substantive Revisions to SSAP No. 54

5. As shown in Exhibit B, this issue paper documents the substantive revisions to *SSAP No. 54——Individual and Group Accident and Health Contracts – Revised* (resulting in a substantively revised SSAP No. 54R) in order to allow principle-based reserving as specified in the *Valuation Manual*. These revisions have a January 1, 2017, effective date.

Updates to Appendix A-820

6. Updates to *Appendix A-820: Minimum Life and Annuity Reserve Standards* (A-820) were adopted in agenda item 2016-10: Changes to A-820 Standard Valuation Law for Principle-Based Reserving. The revisions incorporate relevant aspects of the 2009 revisions to the *Standard Valuation Law* (Model #820) into Appendix A-820. Revisions to A-820 were adopted on June 9, 2016, with a January 1, 2017, effective date.

7. The revisions added explicit references to the *Valuation Manual* in Appendix A-820 for life reserving guidance for policies issued on or after January 1, 2017. The existing A-820 is incorporated by referenced in the following statements: *SSAP No. 51—Life Contracts*, *SSAP No. 52—Deposit-Type Contracts*, *SSAP No. 54—Individual and Group Accident and Health Contracts, SSAP No. 56—Separate*

Accounts, SSAP No. 59—Credit Life and Accident and Health Insurance Contracts and the commissioners' annuity reserve valuation method is noted in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.*

DISCUSSION

Overview of Life Principle-Based Reserving

8. The PBR project for life and health reserving has been ongoing at the NAIC for a number of years. Currently, life insurers set aside reserves to pay insurance claims when due. Under the current

the prior reserving guidance to remain in effect for policies written before the operative date of the *Valuation Manual*. Therefore the reserving guidance identifies guidance which is applicable to all policies and divides other sections of guidance for polices which are, and are not, subject to the *Valuation Manual*.

20. A significant amount of the life reserving guidance in SSAP No. 51 was retained in SSAP No. 51R because the net premium reserve methodology in the *Valuation Manual* incorporates many of the same concepts. In addition, the *Valuation Manual* adds additional reserve amounts based on either stochastic or deterministic methodologies if needed. References were added to the *Valuation Manual* for policies issued after the *Valuation Manual* operative date as deemed necessary.

21. Asset adequacy testing is an existing requirement which functions as an additional check of reserve adequacy by reviewing to ensure that assets will be sufficient and available to meet reserving obligations as claims become due. No changes w 7.5578s0c

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Annual Statement Reporting Considerations

35. The *Life Annual Statement Instructions* include the following in the Summary of Operations, Capital and Surplus Account:

The purpose of the Capital and Surplus Account is to delineate certain charges and credits not included in operations such as net capital gains and items pertaining to prior years and to reconcile the change in capital and surplus during the year.

Line 43 – Change in Reserve on Account of Change in Valuation Basis, (Increase) or Decrease

Column 1 should equal (Exhibit 5A, Line 9999999, Column 4) x – 1.

Include: All reserve strengthening commitments of a permanent nature.

Exclude: Any deficiency reserves.

The *Health Annual Statement Instructions* include the following in the Statement of Revenue and Expenses, Capital and Surplus Account:

Line 35 – Change in Valuation Basis of Aggregate Policy and Claim Reserves

Refer to SSAP No. 54, Individual and Group Accident and Health Contracts, for accounting guidance.

36. The *Health Annual Statement Instructions* include the following in the Statement of Revenue and Expenses, Capital and Surplus Account:

Line 35 – Change in Valuation Basis of Aggregate Policy and Claim Reserves

Refer to *SSAP No. 54—Individual and Group Accident and Health Contracts* for accounting guidance.

Valuation Manual Reference to Health Guidance

37. *Valuation Manual* section VM-25 Health Insurance Reserves Minimum Reserve Requirements provides the following:

A. Purpose

1. Reserve requirements for individual accident and health insurance policies issued on and after the *Valuation Manual* operative date and reserve requirements for group accident and health insurance certificates issued on and after the *Valuation Manual* operative date are applicable requirements found in the Accounting Practices and Procedures Manual (APPM), Appendix A, which includes A-10, and applicable requirements found in the APPM Appendix C, which includes AG28, AG44, AG47 and AG50.

Statutory Accounting

SSAP No. 51—Life Contracts

SSAP No. 54—Individual and Group Accident and Health Contracts

EXHIBIT A - REVISIONS TO SSAP NO. 51—LIFE CONTRACTS – REVISED

Life Contracts

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for income recognition and policy reserves for all contracts classified as life contracts defined in *SSAP No. 50—Classifications of Insurance or Managed Care Contracts*, except for credit insurance contracts which are discussed in *SSAP No. 59—Credit Life and Accident and Health Insurance Contracts* and separate account products which are discussed in *SSAP No. 56—Separate Accounts*.

SUMMARY CONCLUSION

Types of Premiums

2. The gross premium is the amount charged to the policyholder and taken into operations as premium income.

3. The net premium is the amount calculated on the basis of the interest and mortality table used to calculate the reporting entity's statutory policy reserves.

4. The difference between the gross premium and the net premium is referred to as "loading." Loading generally includes allowances for acquisition costs and other expenses but also includes the differences in mortality and interest assumptions utilized for pricing and statutory reserving purposes.

Premium Income Recognition

5. Premiums shall be recognized as income on the gross basis (amount charged to the policyholder) when due from policyholders under the terms of the insurance contract. As a result, premium income shall include first year and renewal premiums, as well as any related premium adjustments (i.e., retrospective premium contracts which are discussed in *SSAP No. 66—Retrospectively Rated Contracts*) provided for by the contract. The contractual due date shall beCsuaa1 Tfhro-. 56o5. t1(m agree polib) 1 Ting i

17. ~~The preceding two p~~Paragraphs 15 and 16 of this statement summarize the general reserve requirements for all types of life contracts. Paragraphs 18-21 provide additional detail for specific products for policies that are issued prior to the operative data of the *Valuation Manual* or otherwise not subject to the *Valuation Manual*.

~~17.~~18. In addition to these general reserve requirements, Appendix A-820 provides additional guidance with respect to certain types of accumulation annuities that have flexible features (e.g., guaranteed nonforfeiture benefits such as interest guarantees, annuitization options, bailout features, partial withdrawals) which can create varying benefit streams if elected by the policyholder. Specific policies with such flexible features include most individual and some group annuity contracts, but exclude any disability and accidental death benefits in these contracts. For benefits under these contracts, reserves shall be established according to the Commissioners' Annuity Reserve Valuation Method (CARVM). Generally under CARVM, the difference between all possible future guaranteed benefits streams, including guaranteed nonforfeiture benefits, over the future considerations is computed as of the end of each contract year. Each of these differences is discounted to the reporting date at the applicable valuation interest rate. A reserve is then recorded based on the greatest present value difference of each of the contract year calculations.

~~18.~~19. Unlike traditional life insurance contracts, flexible premium universal life-type contracts do not have guaranteed premiums and some assumption as to future premiums is required. Appendix A-585 establishes a minimum reserving method for universal life-type contracts by providing guidance on how to estimate future premiums on flexible premium universal life-type contracts so that traditional valuation methodologies can be used. Alternative minimum reserves shall be required, if applicable, for flexible premium universal life-type contracts if the guaranteed maturity premium is less than the valuation net premium. Appendix A-585 shall be used in establishing reserves for flexible premium universal life-type contracts.

~~19.~~20. Policy reserves for fixed premium universal life-type contracts shall also follow guidance in Appendix A-585. Certain fixed premium products offer the policyholder a secondary guarantee. A secondary guarantee provides the policyholder a guaranteed set of cash values, death benefits, and maturity benefits that will be provided regardless of the performance of the policy value. Appendix A-585 requires all guarantees to be considered when establishing policy reserves and shall be followed in establishing reserves for fixed premium universal life-type contracts.

~~20.~~21. Statutory policy reserves for those group annuity contracts or other contracts that, in whole or in part, establish the insurer's obligations by reference to a segregated portfolio of assets not owned by the insurer shall be established in accordance with the guidance in Appendix A-695. Statutory policy reserves for those contracts with nonlevel premiums or benefits, or contracts with secondary guarantees shall be established in accordance with the guidance in Appendix A-830. Statutory policy reserves for those group life contracts utilizing a separate account that meet the requirements outlined in paragraph 1 of Appendix A-200 shall be computed in accordance with the guidance in that appendix.

22. For life and annuity policies issued on or after the operative date of the *Valuation Manual*, reserves shall use the requirements of the

anniversary date (i.e., terminal reserves), not the reporting date. As a result, it is necessary to adjust the terminal reserve back to the reporting date. The components used to compute a terminal reserve shall ~~consist of~~include an interest rate, lapse rates, a mortality and/or morbidity table, and a valuation method (e.g., net level, full preliminary term, Commissioners' Reserve Valuation Method (CRVM), or CARVM). A terminal reserve is based on the assumption that all net premiums have been received, all interest earned, and all benefits paid to the end of the policy year.

~~22.~~24. Since terminal reserves are computed as of the end of a policy year and not the reporting date, the terminal reserve as of policy anniversaries immediately prior and subsequent to the reporting date are adjusted to reflect that portion of the net premium that is unearned at the reporting date. This is generally accomplished using either the mean reserve method or the mid-terminal method as discussed in ~~the next four~~ paragraphs 25-28. Other appropriate methods, including an exact reserve valuation, may also be used.

Mean Reserve Method

~~23.~~25. Under the mean reserve method, the policy reserve equals the average of the terminal reserve at the end of the policy year and the initial reserve (the initial reserve is equal to the previous year's terminal reserve plus the net annual valuation premium for the current policy year). When reserves are calculated on the mean reserve basis, it is assumed that the net premium for a policy is collected annually at the beginning of the policy year and that policies are issued ratably over the calendar year.

~~24.~~26. However, as premiums are often received in installments more frequently than annually and since the calculation of mean reserves assumes payment of the current policy year's entire net annual premium, the policy reserve is overstated by the amount of net modal premiums not yet received for the current policy year as of the valuation date. As a result, it is necessary to compute and report a special asset to offset the overstatement of the policy reserve.

~~25.~~27. This special asset is termed "deferred premiums." Deferred premiums are computed by taking the gross premium (or premiums) extending from (and including) the modal (monthly, quarterly, semiannual) premium due date or dates following the valuation date to the next policy anniversary date and subtracting any such deferred premiums that have actually been collected. Deferred premium assets shall also be reduced by loading. Since the calculation of mean reserves assumes payment of the current policy year's entire net annual premium, deferred premium assets are considered admitted assets to compensate for the overstatement of the policy reserve. For policies subject to the *Valuation Manual* requirements, the deferred premium asset will continue to be calculated for the net premium reserve component of the total principle-based reserve.

Mid-Terminal Method

~~26.~~28. Under the mid-terminal method, the policy reserves are calculated as the average of the terminal reserves on the previous and the next policy anniversaries. These reserves shall be accompanied by an unearned premium reserve consisting of the portion of valuation premiums paid or due covering the period from the valuation date to the next policy anniversary date. For policies subject to the *Valuation Manual* requirements, the adjustment to the unearned premium reserve will continue to be calculated for the net premium reserve component of the total principle-based reserve.

Advance Premiums

~~27.~~29. Advance premiums are those premiums that have been received by the reporting entity prior to the valuation date but which are due on or after the next policy anniversary date. The policyholder may remit one or more premiums in advance of specific due dates. Where premiums are remitted sufficiently far in advance, the premiums charged to the policyholder may be reduced or discounted to reflect the time Valuation date, the amount received from the policyholder plus the accumulated interest equals the gross premium necessary to fund the policy. The total amount of such advance premiums, less any discount as of the valuation date, is reported as a liability in the statutory financial statement and is not considered premium income until due. The gross premium, not the net valuation premium, is recorded as the advance premium in recognition of the reporting entity's liability to refund such premiums in the event the policy is terminated.

Policyholder Dividend Liability

~~28.~~30. A reporting entity shall accrue, as applicable, the following items relating to participating policies. They are dividends due and unpaid, dividends apportioned (or not yet apportioned) for payment in the following twelve months, and dividends left on deposit to accumulate interest.

~~29.~~31. Dividends due and unpaid represent dividends payable to the policyholder in the current year but which have not been disbursed or otherwise applied at the reporting date.

~~30.~~32. Dividends payable in the following calendar year represent the estimated amount of all dividends declared by a reporting entity's board of directors prior to the end of the statement year which are not yet paid or due at the end of the year (dividends apportioned for payment) as well as all dividends payable in the following calendar year that have not been declared (dividends not yet apportioned for payment). For individual insurance the amount of this liability shall be equal to the aggregate amount of the dividends estimated to be payable in the following calendar year whether or not declared or apportioned. For group insurance and pensions, the amount of liability is generally equal to the portion of the dividend payable in the following calendar year which has been earned in the current calendar year.

~~31.~~33. Dividends left on deposit with the reporting entity shall be recorded in the amount of the deposit and accrued interest thereon. At the balance sheet date, the interest accrued but not yet credited to the policyholders' accounts shall be established as part of this liability.

Coupons

~~32.~~34. Some entities issue policies that guarantee an annual return, usually evidenced by a coupon that is part of the policy and matures on the policy's anniversary. This return represents an annual pure endowment and is essentially a return of premium previously paid by the policyholder. For matured coupons that have been left to accumulate, the liability is determined in the same way as the liability for dividend accumulations. Interest accrued is calculated for each coupon from the date each matures. The liability for unmatured policyholder coupons shall be the face value of the coupon, discounted at interest and mortality.

Reserve Recognition

~~33.~~35. The difference between the policy reserves for life contracts at the beginning and end of the reporting period shall be reflected as the change in

Accelerated Benefits

~~37.~~42. Accelerated benefits are benefits payable under a life insurance contract to a policyholder or certificateholder during the lifetime of the insured, in anticipation of death or upon the occurrence of specified life-threatening or catastrophic conditions as defined by the policy or rider. These benefits reduce the death benefit otherwise payable under the life insurance contract and are payable upon the occurrence of a single qualifying event which results in the payment of a benefit amount fixed at the time of acceleration. When benefits are provided through the acceleration of benefits under group or individual life policies or riders to such policies, policy reserves shall be determined in accordance with Appendices A-820 and A-620. Reserves for such benefits in the aggregate shall be sufficient to cover policies upon which no claim has yet arisen as well as policies upon which an accelerated claim has arisen. Accounting

Effective Date and Transition

53. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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. The guidance in paragraph 14 was originally contained within *INT 00-30: Application of SSAP No. 51 Paragraph 6 to Waiver of Deduction on Flexible Premium Universal Life Insurance Policies* and was effective December 4, 2000. The guidance in paragraph ~~44~~ 49 was originally contained within *INT 01-26: SSAP No. 51 and Reserve Minimum or Required Amount* and was effective January 1, 2001.

~~48.~~54. Substantive changes that reference the *Valuation Manual* in this statement are effective for January 1, 2017 and thereafter. However, the *Valuation Manual*

Reserve Requirements

9. The aggregate reserve for individual and group accident and health contracts generally consists of a policy reserve and a claim reserve as well as certain other miscellaneous reserves discussed in paragraph 24. The aggregate reserve reflects the future liabilities arising under accident and health policies. Policy reserves have traditionally been referred to as active life reserves and include unearned premium reserves. Policy reserves reflect that premiums cover future liabilities in addition to current claim costs and expenses. Claim reserves, sometimes referred to as disabled life reserves, are required on claims which involve continuing loss. The reserve in this case is a measure of the present value of future benefits or amounts not yet due as of the statement date (the unaccrued portion) which are expected to arise under claims which have been incurred as of the statement date. The aggregate reserve for individual and group accident and health contracts does not include claim liabilities which are the amounts payable at the reporting date (the accrued portion) and reflect the reporting entity's liability for benefits due as of the statement date. Claim liabilities are further discussed in *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.

10. Policy reserves for individual and group accident and health contracts shall include an unearned premium reserve and, as applicable, an additional or contract reserve where constant or level premiums are assumed for certain noncancelable or guaranteed renewable contracts. The claim reserve shall consist of a reserve for the present value of amounts not yet due.

11. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. A prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date. Statutory reserves meet the definition of liabilities as defined in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R). The actuarial methodologies referred to in ~~the following~~ paragraph 12 meet the criteria required for reasonable estimates in SSAP No. 5R.

12. The reserving methodologies and assumptions used in calculating individual and group accident and health reserves shall meet the provisions of A-010, A-641, A-820, ~~and~~ A-822 (as applicable), the *Valuation Manual* and the actuarial guidelines found in Appendix C of this Manual (as applicable). Further, policy reserves shall be in compliance with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Policy Reserves

13. Unearned premium reserves shall be required for all accident and health contracts for which premiums have been reported for a period beyond the date of valuation other than premiums paid in advance. The minimum unearned premium reserve that applies to the premium period beyond the valuation date shall be based on the valuation net modal premium if contract reserves are required and the gross modal unearned premium reserve if contract reserves are not required. If premiums due and unpaid are carried as an asset, such premiums must be treated as premiums in force, subject to unearned premium reserve determination. The value of unpaid commissions, premium taxes, and the cost of collection associated with due and unpaid premiums must be carried as an offsetting liability. In no event shall the aggregate policy reserve for all contracts be less than the unearned gross premium under such contracts. Additionally, the reserve shall never be less than the expected claims for the period beyond the valuation date represented by the unearned premium reserve, to the extent not provided for elsewhere.

14. Contract or additional reserves on accident and health contracts shall be recorded when premiums and benefits are not earned or incurred at the same incidence over the policy period (e.g., contracts having premiums determined on an issue-age basis where premiums and related morbidity, risk of loss, and the cost of coverage are not evenly matched). This evaluation may be applied on a rating block basis if the total premiums for the block were developed to support the total risk assumed and expected expenses for

age of the insured at the date of disablement, the number of months the insured already has been disabled, and the number of months remaining in the benefit period.

Reserve Recognition

21. The difference between the aggregate reserve for accident and health contracts at the beginning and end of the reporting period shall be reflected as the change in reserves in the summary of operations, except for any difference due to a change in valuation basis.

Change In Valuation Basis

22. A change in valuation basis shall be defined as a change in the interest rate, mortality and morbidity assumptions, or reserving method (e.g., net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3). Changing morbidity assumptions regarding the length of claim continuance based on regularly updated credible experience as required for products subject to *Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table* (AG 47) and *Actuarial Guideline L—2013 Individual Disability Income Valuation Table* (AG 50) are not considered a change in valuation basis. Other uses of regularly updated credible experience required to be used for morbidity assumptions by Appendix A-010 regarding continuing claim payments are generally not considered a change in valuation basis. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line for life accident and health and health reporting entities) rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in this paragraph, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. This difference shall not be graded in over time unless ~~an actuarial guideline adopted by the NAIC~~this statement prescribes a new method and a specific transition that allows for grading.

Supplemental Benefits

23. In addition to the basic policy benefit, the contract may provide supplemental benefits. Supplemental benefits include, but are not limited to, accidental death benefits, dental and waiver of premium benefits. If the terms of the contract provide for these benefits, appropriate reserves shall be established in accordance with the applicable standards within the *Accounting Practices and Procedures Manual* and the *Valuation Manual*.

Reserve Adequacy

24. As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be

Additional Reserves Not Included Elsewhere

25. Reserves for experience-rating refunds or the dividend liability in group policies are discussed in SSAP No. 66.

26. Additional actuarial or other liabilities are commonly held for such items as:

a. Surrender values in excess of reserves otherwise required or carried;

b. Additional reserves required based on asset adequacy analysis as discussed in Appendix A-822; and

c. Additional reserves for policies which contain conversion privileges or future contingent

Disclosures

33. Disclose the aggregate amount of direct premiums written through managing general agents or third party administrators. For purposes of this disclosure, a managing general agent means the same as in Appendix A-225. If this amount is equal to or greater than 5% of surplus, provide the following information for each managing general agent and third party administrator:

a. Name and address of managing general agent or third party administrator;

b. Federal Employer Identification Number;

c. Whether such person holds an exclusive contract;

d. Types of business written;

e. Type of authority granted (i.e., underwriting, claims payment, etc.); and

f. Total premium written.

34. Reporting entities shall disclose the relative percentage of participating insurance, the method of accounting for policyholder dividends, the amount of dividends, and the amount of any additional income allocated to participating policyholders in the financial statements.

35. If a premium deficiency reserve is established in accordance with paragraph 19, disclose the amount of that reserve. If a reporting entity utilizes anticipated investment income as a factor in the premium deficiency calculation, disclosure of such shall be made in the financial statements.

36. The financial statements shall disclose the method used by the reporting entity to estimate premium adjustments for contracts subject to redetermination. The amount of net premiums that are subject to such adjustments, as well as the corresponding percentage to total net premiums, shall be disclosed.

37. Management's policy for providing charity care,[1] as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider's direct and indirect costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques with the method used to identify or estimate such costs disclosed. Funds received to offset or subsidize charity services provided (for example, from gifts or grants restricted for charity care or from an uncompensated care fund), also shall be disclosed.

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

Relevant Literature

39. This statement adopts the definition of charity care and adopts with modification the disclosure within *ASU 2010-23, Health Care Entities, Measuring Charity Care*, as applicable.

40. This statement incorporates the requirements of A-010, A-225, A-641, A-820, A-822 (as applicable), the *Valuation Manual*, the Actuarial Standards Board *Actuarial Standards of Practice* and the actuarial guidelines found in Appendix C of this manual (as applicable).

[1] Charity care represents health care services that are provided but are never expected to result in cash flows. Charity care is provided to a patient with demonstrated inability to pay. Each entity establishes its own criteria for charity care consistent with its mission statement and financial ability.

41. This statement rejects *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises* relating to accounting and reporting for individual and group accident and health contracts.

EXHIBIT C – SUMMARY PRINCIPLE-BASED RESERVING IMPLEMENTATION

Agenda Item	Accounting Manual Section	Status	Adopted Date
2015-47	*SSAP No. 51—Life Contracts,*	Exposed 2016 Spring National Meeting	SSAP No. 51 – June 9, 2016
2015-47	*Issue Paper No. 154—Implementation of Principle-based Reserving*		

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