

Statutory Issue Paper No. 160

Structured Settlements Acquired as Investments

STATUS

Finalized April 6, 2019

Original SSAP and Current Authoritative Guidance: SSAP No. 21R

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. This issue paper introduces substantive revisions to *SSAP No. 21—Other Admitted Assets* to explicitly include accounting guidance for an insurance reporting entity that acquires (directly or indirectly) structured settlement payment rights as a result of a structured settlement factoring transaction.

- b. Acquirers of income streams that are not court approved and properly assigned may not be legal, and the acquirer may not be able to legally obtain the future income streams.

Existing Statutory Accounting Guidance:

10. Existing statutory accounting guidance for structured settlements is not intended to address insurer acquirers of structured settlement income streams as investments. Rather, existing SAP guidance addresses situations in which the insurer is the holder of an annuity that provides future structured settlement payments to the designated recipients. The existing SAP guidance, as it pertains to the use of annuities to fund structured settlements satisfying claim liabilities of the insurer, is adopted from U.S. GAAP. Under the existing statutory accou

transactions and considers the earnings process complete, thereby allowing for immediate gain recognition.

19. The following information regarding structured settlements shall be disclosed in the financial statements:

- a. The amount of reserves no longer carried by the reporting entity because it has

purchases an insurance policy from an insured and continues to pay the premium payments so that when the insured event occurs (e.g., death of the insured), the investor receives the death benefit. In life settlements, the investor often pays the insured an amount greater than the cash surrender value of the insurance policy, with an expectation that the insured event will occur in a timeframe that the death benefit received is greater than the cost of the purchase price and the future premium payments to keep the policy active. As detailed in this agenda item, a structured settlement is the legal right to future cash flows, and does not reflect the acquisition of an insurance policy. Unlike life settlements, there is no cash surrender value to structured settlements, and payments under the structured settlement are not renegotiable once set.

14. With the noted elements for structured settlements, the following provisions for reporting structured settlement income streams as other long-term invested assets, were also exposed:

- a. Structured settlement income streams shall be separately reported on Schedule BA, unless they can be aggregated with other structured settlements with similar terms and payout streams.
- b. Structured settlement income streams may be submitted for a credit analysis to the SVO and reported on Schedule BA with an NAIC designation as a “fixed or variable interest rate investment that has the underlying characteristics of a bond, mortgage loans or other fixed income instrument.” (These individual structured settlement income streams may not be reported with a CRP rating as filing exempt.)
- c. Structured settlement income streams shall be initially reported at cost. This cost generally reflects the net present value of the future payment streams with an embedded fixed-rate yield. As the structured settlement income streams are received, reporting entities shall reduce the book adjusted carrying value to reflect the receipt of the income stream (partial payment on Schedule BA, Part 3) as well as corresponding investment income for the fixed rate spread.

15. In response to the exposure, comments from interested parties’ were received stating support for the proposed accounting and reporting guidance. Additionally, the Valuation of Securities (E) Task Force and NAIC Investment Analysis Office (IAO) indicated support for the proposal to establish statutory accounting guidance for structured settlements. The information received from the NAIC IAO identified that purchases of cash streams by assignment of the right to payments due under structured settlements are already filed with, and designated for credit quality, by the SVO.

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