

VA Financial Policies and Procedures  
Insurance Liabilities

**CHAPTER 9**

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## 0901 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures relating to insurance liabilities associated with insurance policies administered by VA. VA life insurance policyholders are issued participating policies and a portion of the earnings from those policies is returned to policyholders in the form of dividends. The U.S. Government administers six life insurance programs (see Appendix A), one of which is the Veterans' Mortgage Life insurance (VMLI) program intended for certain totally disabled Veterans. VA collects premiums for all of the administered insurance policies and pays dividends on the following:

1. National Service Life Insurance (NSLI)
2. Veterans' Special Life Insurance (VSLI)
3. Veterans' Reopened Insurance (VRI) for disabled Veterans only
4. United States Government Life Insurance (USGLI)

In addition to these programs, there are a number of life insurance programs administered by the Office of Servicemembers' Group Life Insurance (OSGLI) and supervised by VA. Public insurance carriers provide servicemembers and Veterans coverage in multiples of \$50,000 up to a maximum of \$400,000.

VA has entered into a group policy with Prudential Insurance Company of America (Prudential). Premiums for the Servicemembers' Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) are set by mutual agreement between VA and Prudential. Reserves for the SGLI and the VGLI are recorded and maintained in Prudential's financial records, since Prudential and its reinsurers assume the risk of loss. Prudential and its reinsurers provide nearly 99 percent of active life insurance coverage. For more details on the life insurance programs, refer to VA's annual Performance and Accountability Report (PAR).

VA receives premiums for SGLI and the Traumatic Injury Protection Program (TSGLI) from the Defense Finance and Accounting Service (DFAS) that are routed through DFAS by the Armed Services components which collect the premiums. VA, in turn, submits the premiums to Prudential, where they are used to pay benefits and other costs, with any balance invested to yield additional income. Title 38 of the United States Code (U.S.C.) requires that the life insurance programs invest in Treasury securities.

090101 RECOGNITION OF INSURANCE LIABILITIES. VA will recognize a liability for future life insurance policy benefits (a liability to current policyholders which relates to insured events, such as death or disability) in addition to the liability for unpaid claims incurred for the life insurance programs, using actuarial present value.

090102 ACCOUNTING AND RECORDING INSURANCE LIABILITIES. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, issued by the Federal Accounting Standards Advisory Board

(FASAB), provides guidance for determining and reporting liabilities and accounting for Federal life insurance programs, including VA policies.

090103 FINANCIAL REPORTING AND DISCLOSURE FOR INSURANCE LIABILITY. OMB Circular A-136, *Financial Reporting Requirements*, mandates financial reporting and disclosure of insurance liabilities. VA will report the liabilities for the Insurance funds on the face of the Consolidated Balance Sheet.

## **0902 POLICIES**

### 090201 RECOGNITION OF INSURANCE LIABILITIES

A. VA will recognize a liability as of the date of financial statements for the future policy benefits of life insurance policies, in addition to the liability for unpaid claims incurred, in accordance with SFFAS No. 5.

B. VA will record an expense on the Statement of Net Cost for the difference between the current and prior year's actuarial calculation of future benefit payments.

### 090202 ACCOUNTING AND RECORDING INSURANCE LIABILITIES

A. VA will measure its life insurance liabilities for future policy benefits using the actuarial present value concept for determining an estimated liability amount.

B. VA will base its actuarial reserve liabilities for its life insurance programs on mortality and interest rate assumptions at the time of issue.

C. VA will declare and pay dividends on eligible life insurance policies administered by VA, once the Secretary determines excess funds are available from program operations.

### 090203 FINANCIAL REPORTING AND DISCLOSURE FOR INSURANCE LIABILITY

A. VA will report life insurance (reserve) liabilities as "Public Liabilities" on the face of the Consolidated Balance Sheet. Amounts that are covered or not covered by budgetary resources will be disclosed in footnotes to the financial statements.

B. VA will comply with OMB Circular A-136 guidance relative to disclosure of information on its insurance liabilities in accordance with private sector standards and as indicated in SFFAS No. 5.

C. VA will disclose the face amount of active life insurance policies, both VA-administered and supervised programs, along with the actual number of active life insurance policies in-force.

### **0903 AUTHORITY AND REFERENCES**

090301 38 U.S.C. Title 38, Veterans' Benefits

090302 Statement of Federal Financial Accounting Standards No. 5 (SFFAS #5), Accounting for Liabilities of the Federal Government

090303 Financial Accounting Standards Board (FASB), Accounting Standards Codification, Volume I, General Principles (Topic 105), July 1, 2009<sup>1</sup>

090304 OMB Circular A-11, Preparation, Submission and Execution of the Budget

090305 OMB Circular A-136, Financial Reporting Requirements

090306 Volume II, Chapter 2H, Life Insurance Program

090307 VBA Directive 4580, Insurance Fund and Insurance Appropriation Accounting

090308 VBA Handbook 4580, Insurance Fund and Insurance Appropriation Accounting

090309 VA Life Insurance Programs for Veterans and Servicemembers

### **0904 ROLES AND RESPONSIBILITIES**

090401 The Secretary of VA determines annually the surplus funds available for dividend payments on eligible VA-administered life insurance policies.

090402 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

090403 All Under Secretaries, Assistant Secretaries, and other key officials have the responsibility to implement financial policies and procedures established by the CFO, including compliance with the policies and procedures set forth in this chapter.

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<sup>1</sup> Access to the details on specific topics require subscription. This reference only directs chapter users to the proper authoritative source for private sector generally accepted accounting principles for life insurance.

## 0905 PROCEDURES

### 090501 RECOGNITION OF INSURANCE LIABILITIES.

A. VA will recognize both the unpaid claims liability for life insurance as well as a liability for net future policy benefit outflows. The liability for future policy benefits represents the expected present value of future outflows to be paid to or on behalf of existing policyholders, less the expected present value of future net premiums to be collected from those policyholders.

1. The liability is estimated using appropriate financial or actuarial methods that include assumptions, such as estimates of expected investment yield, mortality, morbidity, terminations and expenses, applicable at the time the insurance contracts are made and in accordance with existing law and related policy.

B. Any changes in the liability for future net policy benefit outflows that result from periodic re-estimations would be recognized as expense in the period in which the changes occur.

1. VA will reflect this change in the Statement of Net Cost in the financial statements.

VA's life insurance programs offer coverage that, in practice, is noncancelable by the insurer and guaranteed renewable by the insured, continuing until the insured event has occurred or the policy is cancelled by the insured.

### 090502 ACCOUNTING AND RECORDING INSURANCE LIABILITIES.

A. VA will measure its insurance liabilities for future policy benefits as the present value of future outflows to be paid to (or in behalf of) policyholders, less the present value of future related premiums. Also encompassed in the liability (also referred to as policy reserves) is cash surrender value amount. In general, for whole life policies, the liability for future policy benefits should be no less than the cash surrender value that accrues to the benefit of policyholders.

B. Actuarial reserve liabilities for the administered life insurance programs (a current liability) are based on the mortality and interest assumptions at time of issue. These assumptions, which are reviewed annually as part of the CFO audit, vary by fund, type of policy and type of benefit. The interest assumptions currently range from 2.25 to 5 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table and the 2001 CSO Table. The impact of investment returns on the portfolio rate earned by the assets supporting program reserves is reviewed annually to determine the appropriateness of the interest rate assumptions. Assumptions upon which the premium rates are based are contractually guaranteed by Title 38.

C. Reserves for future installments insurance payments are based on current actuarial assumptions and experience studies, which include a current interest rate range from 2.25 to 5 percent. These assumptions, which are reviewed annually as part of the CFO audit, vary by fund, policy type and type of benefit.

D. Dividends are payable only on certain VA-administered life insurance policies. Dividends will be based on an actuarial analysis of the individual programs at the end of the preceding year.

1. Dividends are declared on a calendar year basis and paid on policy anniversary dates.

2. Policyholders can elect the following actions:

- a. Receive a cash payment;
- b. Prepay premiums;
- c. Repay loans;
- d. Purchase paid-up insurance; or
- e. Deposit the amount in an interest-bearing account.

3. VA will charge a provision for dividends to operations and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

#### 090503 FINANCIAL REPORTING AND DISCLOSURE FOR INSURANCE LIABILITY.

A. VA will report its Insurance Liabilities (Reserve) as “Public Liabilities” on the face of the Consolidated Balance Sheet.

1. In relation to these reserve liabilities, VA will disclose the total amounts both covered and not covered by budgetary resources. The latter portion will be disclosed in a separate footnote along with other VA liabilities not covered by budgetary resources. Insurance reserves for VA-administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and VMLI reserves are reported as liabilities not covered by budgetary resources.

B. OMB Circular A-136 requires that VA disclose information on its insurance liabilities in accordance with private sector standards<sup>2</sup>. Refer to SFFAS No. 5 in the Authority and Reference Section (see 090302) for further guidance.

C. VA will disclose the number of life insurance policies in-force, along with the face value of these insurance in-force policies. VA will also separately disclose those policies relating to supervised programs from policies of VA-administered programs.

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<sup>2</sup> Some of the authoritative sources for guidance in SFFAS No. 5 have been superseded.

**0906 DEFINITIONS**

090601 Actuarial Liability. A liability based on statistical calculations and actuarial assumptions (actuarial assumptions are conditions used to resolve uncertainties in the absence of information concerning future events affecting insurance, pension expenses, etc.).

090602 Actuarial Present Value. The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

090603 Cash Surrender Value. The portion of premiums paid or other amount recoverable on an insurance policy that is owed to the policyholder if the policy is canceled.

090604 Dividends. Payments from funds deemed excess by the Secretary of VA. The dividends are established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

090605 Face Value. The value or worth of a group of active policies as of a specific point in time. The value reported by VA is as of September 30, 20XX, the end of the fiscal year.

090606 Insurance In-Force. The total face amount of life insurance coverage provided by each VA-administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The face amount of insurance from supervised programs constitute nearly 99 percent of the face value in-force.

090607 Liability. A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability can represent assets owed for goods received, services received, assets acquired, construction performed (regardless of whether invoices have been received), amounts received but not yet earned or other expenses incurred but not paid.

090608 Policyholder. The owner of the life insurance policy, whether issued by a supervised program administrator or a VA-administered program.

090609 Premium. Amount paid by the policyholder to maintain coverage under a life insurance program policy.

090610 Recognize. The process of formally reporting a dollar amount on the face of the basic financial statements.

090611 Reserve. The amount of an insurer's liability to fulfill future contingencies and unpaid liabilities already incurred.

090612 Supervised Insurance Programs. Life insurance programs administered by Prudential and its reinsurers.

090613 Whole Life Policy. Whole life policies provide insurance over the insured's entire life and the proceeds (face amount) are paid only upon death of the insured. A level premium is usually paid for policies of this type. The premium may be paid annually or more frequently.

**0907 RESCISSIONS**

None required.

**0908 QUESTIONS**

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)



## APPENDIX A: ACTIVE INSURANCE POLICIES

### LIST OF ACTIVE INSURANCE IN-FORCE POLICIES BY ADMINISTRATOR

#### A. SUPERVISED LIFE INSURANCE PROGRAMS<sup>3</sup>

1. Servicemembers' Group Life Insurance (SGLI) - Active Duty
2. SGLI - Ready Reservists
3. SGLI - Post Separation
4. SGLI – Family (Spouse)
5. SGLI – Family (Children)
6. Traumatic Injury Protection (TSGLI)<sup>4 5</sup>
7. Veterans' Group Life Insurance (VGLI) for post-Vietnam Veterans

#### B. VA-ADMINISTERED LIFE INSURANCE PROGRAMS

1. National Service Life Insurance (NSLI)
2. Veterans' Special Life Insurance (VSLI)
3. Service Disabled Veterans Insurance (S-DVI)
4. Veterans' Reopened Insurance (VRI) for disabled Veterans only
5. United States Government Life Insurance (USGLI)
6. Veterans' Mortgage Life Insurance (VMLI) for severely disabled Veterans

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<sup>3</sup> Both the SGLI and VGLI programs are administered by the Office of Servicemembers' Group Life Insurance (OSGLI).

<sup>4</sup> Prudential administers this program under an Administrative Services Only agreement with VA. Under the law, DoD pays for any claim costs for this program in excess of premiums collected.

<sup>5</sup> TSGLI coverage is a rider to SGLI coverage, so policies under SGLI also have TSGLI.