August 14, 2015

Memorandum

To: Members of the Board

Robin M. Gilliam

From: Robin M. Gilliam, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: Risk Assumed—Insurance Programs [Phase 1]—TAB H

MEETING OBJECTIVES

The meeting objectives are to:

I. approve minor change to category titles, and

II. approve the proposed standards for the life insurance category.

BRIEFING MATERIALS

- Staff Memo

- Attachment I: Agency Financial Reporting for Life Insurance Programs

- Optional Reading for Reference:
  - Appendix A: Risk Assumed - Project Decision History and Milestones
  - Appendix B: Federal Life Insurance Programs
  - Appendix C: General Life Insurance Information.

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1 The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.
BACKGROUND

At the June 2015 Board meeting, the Board continued to review the updated proposed insurance standards for risk assumed. Staff provided the Board with updated information that can be found on the Risk Assumed project page at:  http://www.fasab.gov/projects/active-projects/risk-assumed/

The following items were discussed:

Estimated Losses on Remaining Coverage:

The Board reviewed the proposed language for measuring estimating losses on remaining coverage and returned to their original plan to require expected value, with more definitive language. In the event that expected value is not feasible or appropriate, the most likely amount would then be required. All Board members approved, except Mr. McCall who was absent, and Mr. Engel who was sitting in for Mr. Dacey, stating that Mr. Dacey preferred the most likely amount first and then expected value. Board members noted that the approved order and language should clarify and address any audit issues.

Subsequent Events:

The Board asked staff to provide a better transition from estimating losses on remaining coverage to subsequent events.

Proposed Insurance Program Categories:

Staff recommended three categories: 1) exchange revenue insurance programs other than life insurance, 2) nonexchange revenue insurance programs, and 3) life insurance programs.

Staff explained that SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, provides the definition for revenue types, and noted that SFFAS 7 and SFFAS 5, Accounting for Liabilities of The Federal Government, are in synch. Therefore, SFFAS 7 will identify whether a transaction is exchange or nonexchange and the related timing and recognition of revenue; while SFFAS 5 will govern when the associated loss becomes a liability.

Exchange revenue insurance programs other than life insurance category:

The exchange revenue insurance programs collect revenue through contracts/agreements. This category precludes separate categories for short- and long-duration contracts because the proposed standards will require disclosures by portfolio. Therefore, agencies should include short- and long-duration contracts in separate portfolios according to their similar characteristics.

The transactions that fall within this category may also need appropriations and/or borrowing for funding. Nonexchange revenue may also be collected in the form of fees and fines, not in relation to a contract, but in response to punitive actions. These additional types of funding should be captured in a proposed disclosure schedule. The Board approved the exchange revenue category.
Nonexchange revenue insurance programs category:

Nonexchange revenue programs collect money demanded by the government, such as dedicated taxes and regulated fees. Nonexchange transactions need to be tracked separately because they are not related to contracts and losses are only recognized when they occur. Therefore there will be no liability for losses on remaining coverage, only liabilities for unpaid claims. The Board approved the nonexchange revenue category.

Life insurance category:

Staff recommended life insurance as a separate category because: 1) life insurance has a different risk profile—death always occurs resulting in a payout, whereas an adverse event for exchange and nonexchange transactions might not occur, 2) SFFAS 5 already separates it out, and 3) there will be a liability on future policy benefits which is different than a liability for losses on remaining coverage. The Board approved the life insurance category.

The government-wide (GW) financial report:

In relation to the proposed disclosure schedules in each category, the Board wanted to know if staff will recommend the same detail at the GW level. Staff noted that only certain pieces will be proposed. Staff also acknowledged Treasury’s comment that FASAB should only require information at the GW level that is required at the component level, and will address the GW standards once the standards for all of the categories have been addressed.

Staff presents the proposed standards for insurance categories below; all other updates will be provided at the October 2015 meeting.
STAFF ANALYSIS AND RECOMMENDATIONS FOR PROPOSED STANDARDS

I. Approve Minor Changes to Category Titles:

Staff Analysis and Recommendation:

During the June 2015 meeting, the Board approved the following insurance program categories:

I. Exchange Revenue Insurance Programs Other Than Life Insurance
II. Nonexchange Revenue Insurance Programs
III. Life Insurance Programs

Staff recommends changing the word “revenue” in categories I and II to the word “transaction” in order to address the type of transaction versus the type of revenue. Both the revenue and liability standards refer to the transaction as the basis for classifying activity as exchange or nonexchange.

I. Exchange Transaction Insurance Programs Other Than Life Insurance
II. Nonexchange Transaction Insurance Programs
III. Life Insurance Programs

Question I: Does the Board approve the updated titles for the insurance categories?

II. Proposed Standards for Life Insurance:

Staff Analysis:

During the June 2015 Board meeting, staff recommended life insurance as a separate category because: 1) life insurance has a different risk profile—death always occurs resulting in a payout, whereas an adverse event for exchange and nonexchange transactions might not occur, 2) SFFAS 5 already separates it out, and 3) there will be a liability on future policy benefits which is different than a liability for losses on remaining coverage. The Board approved the life insurance category.

In developing the proposed life insurance standards, staff determined that only the Office of Personnel Management (OPM) and the Department of Veterans Affairs (VA) manage life insurance programs. While both OPM and VA provide relevant financial information about their life insurance programs, the information is inconsistent and not always clear because a financial statement reader cannot distinguish the required liabilities per SFFAS 5:2 liability for unpaid claims and liability for net future policy benefits outflows and their related components.3

See Attachment I: Agency Financial Reporting for Life Insurance Programs as support for the following analysis on consistency and clarity issues:

2 SFFAS 5, Accounting for Liabilities of The Federal Government, par. 113, staff memo, pages 8-9
3 See also Table 9 from SFFAS 5, Staff Memo, page 8
The Office of Personnel Management (OPM)

1. The balance sheet liability *Benefits Due and Payable*:\(^4\)
   - While Note 1, *Summary of Significant Accounting Policies, N. Benefits Due and Payable* does include life insurance claims filed and unpaid and IBNR, a reader cannot determine if this also includes claims adjustment expenses, and/or adjustments for any recoveries from improper payments.
   - In addition, *Benefits Due and Payable* include claims filed and unpaid for retirement and health benefits and premiums payable to health benefit program commercial carriers. Therefore, a reader cannot determine how much belongs to life insurance.

2. The balance sheet liability *Actuarial Life Insurance Liability* [Note 5C] is the Liability for Net Future Benefit Outflows (title per SFFAS 5) according to the summary in Note 5C.\(^5\)
   - The *Actuarial Life Insurance Liability* includes *Life Insurance Expenses* and *Future Life Insurance Benefits Expense*.\(^6\)
   - However, without a narrative, it is hard to understand what is included in the individual line items, such as *Life Insurance Expense*, *Less: Net Costs Applied to Life Insurance Liability*, and *Future Life Insurance Benefits Expense* in the charts.\(^7\)
   - In addition, it is hard to tie the chart line items\(^8\) to the Statement of Net Cost\(^9\) (SNC) expenses. For example:
     - The $712M [2014] total Future Life Insurance Benefits Expense in the chart, does not clearly map to the $875M Future Life Insurance Benefits SNC expense.
     - The Chart appears to net the future life insurance benefit expense of $875M and the gain of $163M while the SNC includes them in separate line items.
   - The information disclosed in Note 5C also does not provide any details about the current premiums collected or expected net present value of the future premiums, either in narrative or in what line item they are netted/included.
     - The SNC includes an expense item *Current Benefits and Premiums*.\(^10\) However, a reader cannot determine from the short discussion in MD&A\(^11\) if life insurance premiums are included.

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\(^{4}\) Attachment I, Balance Sheet-page 2 & Note I, N-page 10  
\(^{5}\) Attachment I, Balance Sheet-page 2 & Actuarial references-page 11  
\(^{6}\) Attachment I, page 11  
\(^{7}\) Attachment I, page 12  
\(^{8}\) Attachment I, page 12  
\(^{9}\) Attachment I, page 12  
\(^{10}\) Attachment I, page 3  
\(^{11}\) Attachment I, page 6
3. OPM experienced an 81% reduction in the life insurance actuarial gain from $858M in 2013 to $163M in 2014.\textsuperscript{12} While the following information was found, a narrative description would have provided the reader with more specific information as to what assumption(s) actually caused this change:

- a technical discussion in Note 5C,\textsuperscript{13}
- a general discussion in MD&A,\textsuperscript{14} and
- a general discussion in Note I, Summary of Significant Accounting Policies, O. Actuarial Liabilities and Associated Expenses.\textsuperscript{15}

The Department of Veterans Affairs (VA)

1. There is no clear liability for net future policy benefits:
- The balance sheet includes a line item entitled Insurance Liabilities (Note 17),\textsuperscript{16} while Note 17 includes a chart entitled Insurance Liability (Reserve) Balances.\textsuperscript{17}
- Note I – Summary of Significant Accounting Policies does provide general information about insurance liabilities.\textsuperscript{18}
- The Insurance Liability (Reserve) Balances chart\textsuperscript{19} includes the reserve for unearned premiums, Insurance dividends left on deposit and related interest payable, dividends payable to policyholders and unpaid policy claims.
- However, the Unpaid Policy Claims\textsuperscript{20} is not the liability for unpaid insurance claims; a liability for Unpaid Insurance Claims is not shown separately.

VA task force members informed staff in an email dated 7/6/15 that: Unpaid Policy Claims in Note 17 is the portion of pending and IBNR claims that is \textbf{unfunded}. This sometimes happens for two of the insurance funds that insure severely disabled Veterans and receive government appropriations to meet their operating deficits.

2. Claims reported and unpaid and incurred but not reported (IBNR) are captured in Accounts Payable.\textsuperscript{21}

\textsuperscript{12} Attachment I, page 12 \hspace{1cm} \textsuperscript{13} Attachment I, page 11
\textsuperscript{14} Attachment I, page 6 \hspace{1cm} \textsuperscript{15} Attachment I, page 10
\textsuperscript{16} Attachment I, page 14 \hspace{1cm} \textsuperscript{17} Attachment I, pages 17-20.
\textsuperscript{18} Attachment I, pages 16-17 \hspace{1cm} \textsuperscript{19} Attachment I, pages 19-20
\textsuperscript{20} Attachment I, pages 17-20 \hspace{1cm} \textsuperscript{21} Attachment I, Balance Sheet-page 14; AP Note-page 15
• VA task force members informed staff in an email dated 7/6/15 that the estimated liability for IBNR life insurance claims is included in Accounts Payable on the Balance Sheet, rather than in Insurance Liabilities.

Because of the financial reporting inconsistencies in relation to the accounting standards, it is challenging for a financial statement user to understand the financial position of these life insurance programs independently, as well as in comparison to each other.

Staff believes that the proposed standards for life insurance programs will address these issues and provide more consistency, clarity, and comparability.

Below are copies of the SFFAS 522 and FASB standards for life insurance:

The recommendations that follow will provide:
• a clear accounting of the financial position for life insurance programs;
• consistency between the program agency financial reports that allow for comparability; and
• clarity for what FASAB can require for the government-wide financial report.

22 SFFAS 5 - Accounting for Liabilities of the Federal Government
SFFAS 5

- Accounting For Liabilities of Federal Insurance and Guarantee Programs
- Additional Disclosures for Insurance and Guarantee Programs Administered By Government Corporations
- Illustrations of the Application of the Standard

Table 9, Liability Recognition, Supplementary Information and Disclosure

[Note: The below underlined items are recognized liabilities.]

<table>
<thead>
<tr>
<th>(1) Type of insurance</th>
<th>(2) Example of program</th>
<th>(3) Insured Event has occurred</th>
<th>(4) Risk Assumed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncancellable or renewable</td>
<td>VA Life Insurance</td>
<td>CLAIMS + IBNR (PLUS RESERVE FOR CURRENT CASH VALUE, IF NECESSARY)</td>
<td>LIABILITY FOR FUTURE POLICY BENEFITS (NET APV OF POLICIES IN FORCE). All components of the liability for future policy benefits should be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses (e.g., reducing premiums, determining and declaring dividends available, and/or to reducing federal support in the form of appropriations related to administrative cost or subsidies).</td>
</tr>
</tbody>
</table>

Life Insurance:

Paragraph 110:

Liability recognition for life insurance programs spans over columns (3) and (4). The column numbered (4) in the table shows the point at which the standard requires liability recognition for life insurance and supplementary reporting for other insurance and guarantee programs. The supplementary reported amounts represent the present value of unpaid expected losses based on the risk assumed as a result of insurance coverage net of associated premiums.

Paragraph 113:

The liability for life insurance includes both the liability for unpaid claims, including IBNR (i.e., column 3), and a liability for net future policy benefit outflows (i.e., column 4). 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

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\(^{23}\) SFFAS 5, Pages 45-50
collected from those policyholders. 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 (see specific whole life insurance standard below). 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. The effects of changes in relevant law or policy would be recognized when those changes occur.

Paragraph 114:

The assessments of losses expected based on the risk assumed may be made by appropriate actuarial or financial methods that include information and assumptions applicable to the economic, legal, and policy environment in force at the time the assessments are made. Since all future events are uncertain, indicators of the range of uncertainty around expected estimates, including indicators of the sensitivity of the estimates to changes in major assumptions, should also be reported.

Whole Life Policies

Paragraph 115:

Some VA life insurance programs are whole life policies. These programs operate in a manner similar to private sector mutual life insurance enterprises, except that the regulations and market forces that control the private sector are different for these federal programs. 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 following paragraphs specifically address the accounting required for federal whole life insurance programs.

Paragraph 116:

The premiums collected by the insurer are used to pay benefits and other cost, and the balance is usually invested to yield additional income. These assets would be fund balances with Treasury or investments. Encompassed in the liability (also referred to as policy reserves) is cash surrender value and the liability for future policy benefits. The cash surrender value is the portion of premiums paid or other amount recoverable on an insurance policy if immediately canceled. The liability for future policy benefits is the present value of future outflows to be paid to (or in behalf of) policyholders, less the present value of future related premiums. 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.
Accounting for Liabilities of Federal Whole Life Insurance Programs

Paragraph 117:

All federal reporting entities with whole life insurance programs should follow the standards as prescribed in the private sector standards (and as these private sector standards are amended) when reporting the liability for future policy benefits, in addition to the required disclosures described below.53 ....

Paragraph 118:

A liability for future policy benefits relating to participating life insurance contracts should be equal to the sum of:
   a. the net level premium reserve for death and endowment policy benefits,
   b. the liability for terminal dividends, and
   c. any premium deficiency.54

Paragraph 119:

An assessment should be made to compare the liability for future policy benefits using actuarial assumptions applicable at the time the contract is made (contract assumptions) with the liability for future policy benefits using assumptions that consider current economic conditions and experience (current conditions). Actual mortality, morbidity, and termination rates should be used when determining experience. For economic conditions, the nature and the mix of current and expected investments should be considered with expected long-term yields.

Paragraph 120:

A premium deficiency occurs if the liability for future policy benefits using current conditions exceeds the liability for future policy benefits using contract conditions; the difference should be recognized as a charge to operations in the current period.

Additional Whole Life Insurance Disclosure

Paragraph 121:

All components of the liability for future policy benefits (i.e., the net level premium reserve for death and endowment policy and the liability for terminal dividends) should be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses (e.g., reducing premiums, determining and declaring dividends available, and/or reducing federal support in the form of appropriations related to administrative cost or subsidies). The U.S. government-wide financial statements need not separately report or disclose all components of the liability for future policy...
benefits with a description of each amount and an explanation of its projected use and any other potential uses.

Foot Notes:

51 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.

52 A mutual company is an incorporated entity without private ownership interests which operates for the benefit of its policyholders and their beneficiaries. With limited exceptions, mutual companies issue only participating policies. In a mutual company, participating policyholders have the right to vote for members of the company’s board of directors or trustees. In some states, the insurance laws provide that upon liquidation of a mutual insurance company, the net assets are distributed among the existing policyholders of the company, and the prior policyholders have no claim against such assets.

53 The applicable private sector standards are as follows, FASB SFAS 60 Accounting and Reporting by Insurance Enterprises, FASB SFAS 97 Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, and FASB SFAS 120 Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts and AICPA Statement of Position (SOP) 95-1 Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises.

For those federal entities with “mutual enterprise-type” whole life insurance programs, FASB SFAS 120 should be followed. SFAS 120 states that mutual life insurance enterprises shall apply SFAS 60 or 97, as appropriate, to participating life insurance contracts unless those contracts meet both of the following conditions:

• The contracts are long-duration participating contracts that are expected to pay dividends to policyholders based on actual experience of the insurer.
• Annual policyholder dividends are paid in a manner that identifies divisible surplus and distributes that surplus in approximately the same proportion as the contracts are considered to have contributed to divisible surplus (commonly referred to in actuarial literature as the contribution principle).

If the participating life insurance contracts meet the above conditions SOP 95-1 should be followed.

FASB Standards for Long-Duration Contracts

944-605-25 Recognition

25-1:

Both of the following shall be accrued when insured events occur:

a. A liability for unpaid claims (including estimates of costs for claims relating to insured events that have occurred but have not been reported to the insurer)
b. A liability for claim adjustment expenses; that is a liability for all costs expected to be incurred in connection with the settlement of unpaid claims.

25-3:

Because no single function or service is predominant over the periods of most types of long-duration contracts, premiums shall be recognized as revenue over the premium-paying periods of the contracts when due from policyholders. This includes premiums from whole-life contracts, guaranteed renewable term life contracts, title insurance contracts, and participating life insurance contracts...

944-40-30 Initial Measurement

30-1:

The liability for unpaid claims shall be based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.

30-7:

The liability for future policy benefits accrued under paragraph 944-40-25-10 [A liability for future policy benefits relating to long-duration contracts other than title insurance contracts shall be accrued when premium revenue is recognized] shall be the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums (portion of gross premium required to provide for all benefits and expenses).

That liability shall be estimated using methods that include assumptions, such as estimates of expected investment yields, mortality, morbidity, terminations, and expenses, applicable at the time the insurance contracts are made.

The liability also shall consider other assumptions relating to guaranteed contract benefits, such as coupons, annual endowments, and conversion privileges. The assumptions shall include provision for the risk of adverse deviation.

Definition: A concept used by life insurance entities in estimating the liability for future policy benefits relating to long-duration contracts. The risk of adverse deviation allows for possible unfavorable deviations from assumptions, such as estimates of expected investment yields, mortality, morbidity, terminations, and expenses. The concept is referred to as risk load when used by property and liability insurance entities.
Staff Recommendations:

From SFFAS 5, staff recommends:

1. maintaining the two liabilities:
   a. Liability for Unpaid Claims
   b. Liability for Future Policy Benefits; and

2. including whole life insurance with other life insurance standards because the different insurance products will be separated out into their own portfolios according to the proposed standards (see paragraphs 20-23 below).24

Staff recommends adopting the FASB standards for:

1. Revenue recognition
2. Liability for Unpaid Claims
3. Liability for Future Policy Benefits

As a result of the above analysis, staff recommends the following standards for life insurance programs:

**Life Insurance Programs**

**RECOGNITION AND MEASUREMENT**

**REVENUE**

1. Premiums should be recognized as revenue when due from policyholders.

**LIABILITY FOR UNPAID INSURANCE CLAIMS**

2. A liability for unpaid insurance claims should be recognized for adverse events that occurred before the end of the reporting period. The liability should be recorded at the estimated settlement amount.

3. The estimated settlement amount includes:
   a. outflows to liquidate:
      i. claims that have been reported but not paid,
      ii. claims incurred but not reported (IBNR)
   b. related estimated claim adjustment expenses, and

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24 The Board has already approved portfolio reporting for the exchange and nonexchange transaction categories.
c. estimated inflows from recoveries, such as monies recovered from improper payments, not realized at the end of the reporting period.
   i. If estimated recoveries exceed the related claims for a group of contracts then recognition is limited to the amount of the related claims.\(^\text{25}\)
   ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

4. Adjustments to the liability for unpaid insurance claims, other than those resulting from payments made to liquidate existing liability balances, should be recognized as claims expense.

LIABILITY FOR FUTURE POLICY BENEFITS

5. The liability for future policy benefits represents the expected present value of future claims 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.

6. The liability is estimated using appropriate financial and/or actuarial methods that include assumptions, such as estimates of expected investment yield, mortality, morbidity, terminations, and expenses. For requirements regarding actuarial gains and losses see SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

7. 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.

8. The effects of changes in relevant law or policy would be recognized when those changes occur.

9. Estimates should be determined by considering groups of contracts rather than individual contracts, when feasible.

COMPONENT REPORTING ENTITY DISCLOSURE REQUIREMENTS

20. Specific information should be disclosed for selected insurance portfolios,\(^\text{26}\) and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure.

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\(^{25}\) Any amount expected to be recovered in excess of the recognized claim, which will result in a gain, should not be recognized until any contingencies relating to the recovery have been resolved because a contingent gain cannot be recognized until realized.

\(^{26}\) Portfolios are groupings of insurance programs or contracts that have some meaningful relationship. The groupings may be based on contract period/duration, shared risks, management, customers, geographic regions, or other factors.
21. Acceptable quantitative criteria may include whether certain groups of contracts are accumulating large claim expenses or unpaid claim liability balances.

22. Acceptable qualitative factors may include whether a group of contracts is of immediate concern to constituents, politically sensitive, and/or controversial.

23. The following information should be provided for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts:
   a. The type of life insurance and specific characteristics of those products, such as when and how benefits are paid, for example, in dividends and/or at death or at a certain age.
   b. A description of other government agencies and/or commercial insurance programs that administer and/or assume risk for any part of the program.
   c. A narrative description of the sources of revenue, such as premiums received from insureds, interest received from investments, nonexchange revenue such as fines or fees, and whether other funding sources such as appropriations are needed.
   d. Premium pricing policies (in accordance with SFFAS 7, par. 46) including:
      i. risk characteristics used in determining premiums, and
      ii. requirements to set premium prices that do not cover the full estimated cost to settle claims.
   e. A discussion of available dividends, how it was determined that dividends are available, and dividends paid.
   f. A discussion about the liability for future policy benefits to include:
      i. The basis and methods, trend information, risk assumptions and factors, and actuarial assumptions used in determining the expected present value of future outflows and expected present value of future premiums to be collected from those policyholders.
      ii. A schedule, or reference to one, consistent with SFFAS 33, par. 22-23 requirements.
      iii. Any additional information that would provide an understanding of the nature and magnitude of uncertainty in calculating the liability for future policy benefits.
g. The amount of coverage provided through insurance in force at the end of the reporting period, including a discussion that this amount represents the total value of life insurance policies issued.

h. A discussion about the cash surrender value to include:
   i. the number of policies cancelled during the reporting period;
   ii. the total number of loans outstanding; and
   iii. a schedule to include beginning balance, amount disbursed for cancelled policies, interest earned, total amount of loans outstanding and accrued interest due that reduces the cash surrender value, and ending balance.

24. The following information should be provided for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts for:
   a. Total Gross Cost including the following components:
      i. Claims expense
      ii. Claims adjustment expense
      iii. Recoveries
      iv. Interest expense
      v. Losses or gains on remaining coverage
      vi. Other gross costs
   b. Earned Revenue including premiums earned and interest earned
   c. Net cost
   d. (Gain)/loss on assumption changes27
   e. Change in net position including nonexchange revenue, appropriations used, and other financing sources

25. A narrative discussion about the items included in the liability for unpaid insurance claims to include:
   a. The basis and methods, trend information, and risk assumptions and factors used in determining the IBNR and expected recoveries.
   b. Any additional information that would provide an understanding of the nature and magnitude of uncertainty in calculating the IBNR.

27 In accordance with SFFAS 33, par.19
26. Changes in the liability balance for unpaid insurance claims should be provided for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts as follows:

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years

27. A narrative discussion consolidated for all insurance portfolios—or a reference to one to avoid duplication of disclosures—should be provided for:

a. investment activities,

b. appropriations requested, used, and/or available to return to Treasury,

c. borrowing authority including but not limited to: balances, interest expense, repayment requirements, the ability to repay borrowing used to fund insurance claims, financing sources for repayment, and other terms of borrowing authority used in accordance to already existing standards, and

d. any event(s) that caused a material change in the required disclosures, such as low probability high impact adverse events, changes in laws and/or actuarial assumptions.

The proposed standards will provide:

- a clear accounting of the financial position of life insurance programs;
- consistency between the program agency financial reports for comparability, and
- clarity for what we can require for the government-wide financial report.

Question II: Does the Board approve the standards for life insurance programs?
QUESTIONS FOR THE BOARD:

Question I:  Does the Board approve the updated titles for the categories?
Question II: Does the Board approve the standards for life insurance programs?

NEXT STEPS

Present the exposure draft at the October meeting for pre-ballot.

Per the Board Meeting Process: members should inform staff as soon as possible in writing [prior to the October 2015 meeting] if they wish to make an alternative proposal. This will help to achieve an efficient and effective delivery of the exposure draft and subsequent standards.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help me to prepare answers to your questions in order to make the meeting more productive. You can contact me by telephone at 202-512-7356 or by e-mail at gillamr@fasab.gov with a cc to paynew@fasab.gov
Agency Financial Reporting for Life Insurance Programs

The following material was extracted from Agency Financial Reports as reference material for

II. Proposed Standards for Life Insurance

Please note that staff has added highlights, bolding, and underlines only for emphasis.
<table>
<thead>
<tr>
<th>OPM Consolidated Balance Sheet (in Millions)</th>
<th>Life Insurance Program</th>
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<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental:</td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury [Note 2]</td>
<td>$11</td>
</tr>
<tr>
<td>Investments [Note 3]</td>
<td>43,832</td>
</tr>
<tr>
<td>Accounts Receivable [Note 4]</td>
<td>14</td>
</tr>
<tr>
<td>Total Intragovernmental</td>
<td>43,857</td>
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<tr>
<td>Accounts Receivable from the Public, Net [Note 4]</td>
<td>143</td>
</tr>
<tr>
<td>Other [Note 1L]</td>
<td>657</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$44,657</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental [Note 6]</td>
<td>$7</td>
</tr>
<tr>
<td>Federal Employee Benefits:</td>
<td></td>
</tr>
<tr>
<td>Benefits Due and Payable</td>
<td>855</td>
</tr>
<tr>
<td>Actuarial Life Insurance Liability [Note 5C]</td>
<td>47,449</td>
</tr>
<tr>
<td>Total Federal Employee Benefits</td>
<td>48,304</td>
</tr>
<tr>
<td>Other [Notes 6 and 7]</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$48,368</strong></td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
</tr>
<tr>
<td>Cumulative Results of Operations</td>
<td>(3,711)</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>(3,711)</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET POSITION</strong></td>
<td><strong>$44,657</strong></td>
</tr>
</tbody>
</table>
### OPM Consolidated Statement of Net Cost (In Millions)

<table>
<thead>
<tr>
<th>Life Insurance Programs</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROSS COSTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With the Public:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future Life Insurance Benefits [Note 5C]</td>
<td>$875</td>
<td>$1,149</td>
</tr>
<tr>
<td>Current Benefits and Premiums</td>
<td>3,019</td>
<td>2,802</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Total Gross Costs with the Public</td>
<td>3,895</td>
<td>3,968</td>
</tr>
<tr>
<td><strong>Total Gross Costs [Notes 8 and 9]</strong></td>
<td>3,895</td>
<td>3,968</td>
</tr>
<tr>
<td><strong>EARNED REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>494</td>
<td>495</td>
</tr>
<tr>
<td>Earnings on Investments</td>
<td>367</td>
<td>821</td>
</tr>
<tr>
<td><strong>Total Intragovernmental Earned Revenue</strong></td>
<td>861</td>
<td>1,316</td>
</tr>
<tr>
<td>With the Public:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participant Contributions</td>
<td>2,719</td>
<td>2,680</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Earned Revenue with the Public</strong></td>
<td>2,727</td>
<td>2,683</td>
</tr>
<tr>
<td><strong>Total Earned Revenue [Notes 8 and 9]</strong></td>
<td>3,588</td>
<td>3,999</td>
</tr>
<tr>
<td><strong>Net Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]</td>
<td>(163)</td>
<td>(858)</td>
</tr>
<tr>
<td><strong>Net Cost of Operations [Notes 8 and 9]</strong></td>
<td><strong>$144</strong></td>
<td><strong>($889)</strong></td>
</tr>
</tbody>
</table>

**Note:** The 2014, 2013 Future Life Insurance Benefits Expense of $712 and $291 in Note 5C (page 12-this attachment), is shown separately in the two line items boxed in red.
### OPM Consolidated Statement of Changes in Net Position (In Millions)

<table>
<thead>
<tr>
<th></th>
<th>Life Insurance Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td><strong>CUMULATIVE RESULTS OF OPERATIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>($3,612)</td>
</tr>
<tr>
<td>Budgetary Financing Sources:</td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>45</td>
</tr>
<tr>
<td>Total Financing Sources</td>
<td>45</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td>144</td>
</tr>
<tr>
<td>Net Change</td>
<td>(99)</td>
</tr>
<tr>
<td>Cumulative Results of Operations - Ending Balance</td>
<td>($3,711)</td>
</tr>
</tbody>
</table>

### UNEXPENDED APPROPRIATIONS

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Financing Sources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations Received</td>
<td>$47</td>
<td>$47</td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>(45)</td>
<td>(46)</td>
</tr>
<tr>
<td>Other Budgetary Financing Sources</td>
<td>(2)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

**NET POSITION** | ($3,711) | ($3,612) |
Section 1 — Management’s Discussion and Analysis

Analysis of OPM’s Financial Statements

Page 19: Balance Sheet

**Assets**
The largest category of assets is investments at $981 billion, which represents 97.2 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and its total assets, in normal years, usually both grow.

**Liabilities**
At the end of FY 2014, OPM’s total liabilities were $2,197 billion, an increase of 2.3 percent from $2,149 billion at the end of FY 2013. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.4 percent of OPM’s liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today’s dollars, of providing benefits to participants in the future. To compute these liabilities, the actuaries make many assumptions about the future economy and about the demographics of the future Federal employee and annuitant (retirees and their survivors) populations.

The Actuarial Life Insurance Liability is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for “post-retirement” benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $.7 billion in FY 2014 to $47 billion, or 1.5 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].
Page 19: Actuarial Gains and Losses

Due to actuarial gains and losses, OPM’s Net Cost to Provide Retirement, Health Benefits, and Life Insurance Benefits can vary widely from year to year. Actuarial gains decrease OPM’s Net Cost, while actuarial losses increase it. What are actuarial gains and losses?

In computing the Pension, Post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, OPM’s actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits, and Life Insurance Programs differs from these assumptions, as it generally will, actuarial gains and/or losses will occur. For example, should the Cost of Living Adjustment (COLA) factor increase be less than the actuary assumed, there will be an actuarial experience gain. A decrease in the assumed future rate of inflation would produce a gain due to a revised actuarial assumption.

Pages 21 - 22:

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2014 increased by $13.1 billion from that in FY 2013 (Table 6). There are three prime determinants of OPM’s net cost to provide Health Benefits: two cost categories (the actuarially computed Post-Retirement Health Benefits Expense, and Current Benefits and Premiums), and one earned revenue category (contributions by and for participants). …

Current Benefits and Premiums stayed level with FY 2013. However, the contributions (for and by participants) increased by $0.7 billion from FY 2013 to FY 2014. …

Page 22: Statement of Net Cost

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from a Net Income of $(.9) billion in FY 2013 to $.1 billion in FY 2014. Gross cost increased $.6 billion due to the actuarial loss in FY 2014 as compared to FY 2013. In applying SFFAS No.33 for calculating the Actuarial Life Insurance Liability (ALIL), OPM’s actuary used salary increase and interest rate yield curve assumptions consistent with those used for computing the CSRS and FERS Pension Liability in FY 2014 and 2013. This entails determination of a single equivalent interest rate that is specific to the ALIL. Both the interest rate and rate of increases in salary assumptions were lower for FY 2014 as compared to FY 2013. Associated revenues decreased, due to lower enrollment.
Table 8 - Net Cost to Provide Life Insurance Benefits

<table>
<thead>
<tr>
<th>($ in Billions)</th>
<th>FY2014</th>
<th>FY2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Cost</td>
<td>$3.7</td>
<td>$3.1</td>
<td>$0.6</td>
</tr>
<tr>
<td>Associated Revenues</td>
<td>3.6</td>
<td>4.0</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Net Cost (Net Income)</td>
<td>$0.1</td>
<td>$(0.9)</td>
<td>$1.0</td>
</tr>
</tbody>
</table>

**Page 23:**

*Appropriations* are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM’s appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions for retirees and survivors who participate in the Health Benefits and **Life Insurance Programs**.

*Trust Fund Receipts* are Retirement Program contributions and withholdings from participants, and interest on investments. Spending Authority from Offsetting Collections includes contributions made by and for those participating in the Health Benefits and **Life Insurance**, and revenues in Revolving Fund Programs.

**Obligations Incurred by Program**

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Benefits</td>
<td>64.6%</td>
<td>64.9%</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>32.5%</td>
<td>32.2%</td>
</tr>
<tr>
<td><strong>Life Insurance Benefits</strong></td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Other</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

From the $241.4 billion in budgetary resources OPM had available during FY 2014, it incurred obligations of $177.7 billion less the $35.0 billion transferred from the Treasury’s General Fund (see Note 1G) for benefits for participants in the Retirement, Health Benefits and **Life Insurance Programs**.

**Section 2 – Note 1 – Summary of Significant Accounting Policies:**

**Page 47: A. REPORTING ENTITY - Life Insurance Program:**

The Program provides group, term-life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Federal Employees Group Life Insurance Fund, a trust revolving fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. Title 5, USC, Chapter 87 provides a complete description of the fund’s provisions. The Program
provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

Page 48:

C. Use of Management’s Estimates

The preparation of financial statements in accordance with GAAP requires management to make certain estimates. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of earned revenues and costs during the reporting period. Actual results could differ from those estimates.

D. Financial Statement Classifications

Intragovernmental and Other Balances. OPM classifies employee contributions to the Retirement, Health Benefits and Life Insurance Programs as exchange revenues “from the public.” OPM’s entire gross cost to provide Retirement, Health and Life Insurance benefits are classified as costs “with the public” because the recipients of these benefits are Federal employees, retirees, and their survivors and families. As a consequence, on the accompanying consolidated Statements of Net Cost and in other notes to OPM’s financial statements, OPM reports there are no intragovernmental gross costs to provide retirement, health and life insurance benefits.

Exchange vs. Non-exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM’s revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the “predominant source of revenue that funds the investments;” OPM, therefore, classifies earnings on investments as earned revenue. Employing agency and participant contributions to the Retirement, Health Benefits and Life Insurance Programs and the scheduled payment contributions to the PSRHB Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits. The consolidated Statements of Net Cost provides users with the ability to ascertain whether OPM’s exchange revenues are sufficient to cover the total cost it has incurred to provide Retirement, Health, and Life Insurance benefits.

Page 50: Earned Revenue.

OPM has two major sources of earned revenues: Earnings on its investments and the Contributions to the Retirement, Health Benefits and Life Insurance Programs by and for participants.

Page 51:

F. Program Funding

Life Insurance Program. The Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis; OPM contributes the “employer” share for Retirement Program annuitants via an appropriation. The Program is funded using the “level
premium” method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A small portion, 0.02 percent of the pay of participating employees in FY 2014 and 2013, of post-retirement life insurance coverage is not funded.

**G. Financing Sources Other Than Earned Revenue**

**Appropriations Used.** By an act of Congress, OPM receives appropriated authority allowing it to incur obligations and make expenditures to cover the operating costs of the Agency (“Salaries and Expenses”) and the Government’s share of the cost of health and life insurance benefits for Retirement Program annuitants. OPM recognizes appropriations as “used” at the time it incurs these obligations against its appropriated authority.

**Page 52:**

**Appropriations.** …At fiscal year-end, any unobligated balances in the appropriations that fund the Government’s share of the cost of health and life insurance benefits are expired.

**J. Investments (Also in Note 3 – Investments page 56)**

The Federal Government does not set aside assets to pay future benefits or other expenditures. OPM invests the excess FBWT for the funds associated with the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement and the PSRHB Fund portion of the Health Benefits Program monies are invested initially in Certificates of Indebtedness (“Certificates”), which are issued by the Treasury at par value and mature on the following September 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each September 30, all outstanding Certificates are “rolled over” into special Government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity.

The Retirement Program also carries securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

Health Benefits and Life Insurance Programs’ monies also are invested, such as in “market-based” securities that mirror the terms of marketable Treasury securities. These market-based securities have some market value risk. Monies that are immediately needed for expenditure are invested in “overnight” market-based securities.

Investments are stated at original acquisition cost, net of amortized premium and discount. Premiums and discounts are amortized into interest income over the term of the investment, using the interest method.

**Additional information in Note 3 – Investments page 56** Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. His is the same way the Government finances
all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security in which it forfeited.

The Health Benefit and Life Insurance funds had approximately $117 billion invested as of September 30, 2014. The majority of these securities are market-based and have market value risk.

Page 54:

L. Other Assets

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM.

N. Benefits Due and Payable

Benefits due and payable is comprised of two categories of accrued expenses. The first reflects claims filed by participants of the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period and includes an estimate of health benefits and life insurance claims incurred but not yet reported. The second is a liability for premiums payable to community-rated carriers participating in the Health Benefits Program that is unpaid in the current reporting period.

O. Actuarial Liabilities and Associated Expenses

OPM records actuarial liabilities [the Pension Liability, post-Retirement Health Benefits Liability, and the Actuarial Life Insurance Liability] and associated expenses. These liabilities are measured as of the first day of the year, with a “roll-forward,” or projection, to the end of the year. The “roll-forward” considers all major factors that affect the measurement that occurred during the reporting year, including pay raises, cost of living allowances, and material changes in the number of participants.
Section 3 – Note 5 – Federal Employee Benefits:

C. Life Insurance¹

**Actuarial Life Insurance Liability.** The Actuarial Life Insurance Liability (ALIL), is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing life insurance program participants, less the EPV of future contributions to be collected from those participants. In applying SFFAS No. 33 for calculating the ALIL, OPM’s actuary uses salary increase and interest rate yield curve assumptions that are consistent with those used for computing the CSRS and FERS Pension Liability in FY 2014 and 2013. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>4.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Rate of increases in salary</td>
<td>1.9%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

The following presents the ALIL as of the September 30 measurement date:

**Life Insurance Expense.** The following presents the Life Insurance Expense by cost component for FY 2014 and 2013:

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Entrant Expense</td>
<td>$136</td>
<td>$306</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,001</td>
<td>2,085</td>
</tr>
<tr>
<td>Actuarial (gain)/loss - Experience</td>
<td>(699)</td>
<td>(710)</td>
</tr>
<tr>
<td>Actuarial (gain)/loss - Assumptions</td>
<td>(163)</td>
<td>(858)</td>
</tr>
<tr>
<td><strong>Life Insurance Expense</strong></td>
<td><strong>$1,275</strong></td>
<td><strong>$823</strong></td>
</tr>
</tbody>
</table>

**Future Life Insurance Benefits Expense.** The Future Life Insurance Benefits Expense for FY 2014 and 2013 is:

<table>
<thead>
<tr>
<th>Sep 30 ($ in millions)</th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance Expense</td>
<td>$1,275</td>
<td>$823</td>
</tr>
<tr>
<td><strong>Less: Net Costs applied to Life Insurance Liability</strong></td>
<td>(563)</td>
<td>(532)</td>
</tr>
<tr>
<td>Future Life Insurance Benefits Expense</td>
<td>$712</td>
<td>$291</td>
</tr>
</tbody>
</table>

**Actuarial Life Insurance Liability.** The following table presents the ALIL at the September 30 measurement date:

<table>
<thead>
<tr>
<th>Sep 30 ($ in millions)</th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial LI Liability at the beginning of the year</td>
<td>$46,737</td>
<td>$46,446</td>
</tr>
<tr>
<td><strong>Plus: Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Entrant Expense</td>
<td>136</td>
<td>306</td>
</tr>
<tr>
<td>Interest on the Liability Balance</td>
<td>2,001</td>
<td>2,085</td>
</tr>
<tr>
<td>Actuarial (gain)/loss:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From experience:</td>
<td>(699)</td>
<td>(710)</td>
</tr>
<tr>
<td>From assumption changes:</td>
<td>(163)</td>
<td>(858)</td>
</tr>
<tr>
<td><strong>Total LI Expense:</strong></td>
<td><strong>1,275</strong></td>
<td><strong>823</strong></td>
</tr>
<tr>
<td><strong>Less: Costs applied to Life Insurance Liability</strong></td>
<td>(563)</td>
<td>(532)</td>
</tr>
<tr>
<td><strong>Actuarial LI Liability at the end of the year</strong></td>
<td><strong>$47,449</strong></td>
<td><strong>$46,737</strong></td>
</tr>
<tr>
<td>DEPARTMENT OF VETERANS AFFAIRS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONSOLIDATED BALANCE SHEETS (dollars in millions)</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>INTRAGOVERNMENTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury (Note 3)</td>
<td>$57,887</td>
<td>$39,048</td>
</tr>
<tr>
<td>Investments (Notes 5 and 19)</td>
<td>7,827</td>
<td>8,564</td>
</tr>
<tr>
<td>Accounts Receivable, Net (Note 6)</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Other Assets</td>
<td>352</td>
<td>540</td>
</tr>
<tr>
<td><strong>TOTAL INTRAGOVERNMENTAL ASSETS</strong></td>
<td><strong>66,106</strong></td>
<td><strong>48,193</strong></td>
</tr>
<tr>
<td><strong>PUBLIC</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (Note 4)</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Investments (Note 5)</td>
<td>178</td>
<td>178</td>
</tr>
<tr>
<td>Accounts Receivable, Net (Note 6)</td>
<td>2,631</td>
<td>2,040</td>
</tr>
<tr>
<td>Direct Loans and Loan Guarantees, Net (Note 7)</td>
<td>1,838</td>
<td>2,147</td>
</tr>
<tr>
<td>Inventories and Related Property, Net (Note 8)</td>
<td>49</td>
<td>71</td>
</tr>
<tr>
<td>General Property, Plant and Equipment, Net (Note 9)</td>
<td>22,283</td>
<td>21,976</td>
</tr>
<tr>
<td>Other Assets</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC ASSETS</strong></td>
<td><strong>27,004</strong></td>
<td><strong>26,446</strong></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$93,110</strong></td>
<td><strong>$74,639</strong></td>
</tr>
</tbody>
</table>
## DEPARTMENT OF VETERANS AFFAIRS

### LIABILITIES

#### INTRAGOVERNMENTAL

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$290</td>
<td>$258</td>
</tr>
<tr>
<td>Debt (Note 11)</td>
<td>697</td>
<td>756</td>
</tr>
<tr>
<td>Other Liabilities (Note 15)</td>
<td>1,300</td>
<td>1,414</td>
</tr>
<tr>
<td><strong>TOTAL INTRAGOVERNMENTAL LIABILITIES</strong></td>
<td><strong>2,287</strong></td>
<td><strong>2,428</strong></td>
</tr>
</tbody>
</table>

#### PUBLIC

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>11,740</td>
<td>10,807</td>
</tr>
<tr>
<td>Liabilities for Loan Guarantees (Note 7)</td>
<td>8,908</td>
<td>7,933</td>
</tr>
<tr>
<td>Federal Employee and Veterans Benefits Liabilities (Note 13)</td>
<td>2,009,364</td>
<td>1,977,020</td>
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<tr>
<td>Environmental and Disposal Liabilities (Note 14)</td>
<td>789</td>
<td>823</td>
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<tr>
<td>Insurance Liabilities (Note 17)</td>
<td>9,145</td>
<td>9,854</td>
</tr>
<tr>
<td>Other Liabilities (Note 15)</td>
<td>4,759</td>
<td>4,260</td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC LIABILITIES</strong></td>
<td><strong>2,044,705</strong></td>
<td><strong>2,010,697</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES**

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2,046,992</strong></td>
<td><strong>2,013,125</strong></td>
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</tbody>
</table>

### NET POSITION

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unexpended Appropriations – All Other Funds (Note 24)</td>
<td>36,398</td>
<td>21,211</td>
</tr>
<tr>
<td>Cumulative Results of Operations – Funds from Dedicated Collections (Note 19)</td>
<td>1,008</td>
<td>843</td>
</tr>
<tr>
<td>Cumulative Results of Operations – All Other Funds (Note 24)</td>
<td>(1,991,288)</td>
<td>(1,960,540)</td>
</tr>
<tr>
<td><strong>TOTAL NET POSITION</strong></td>
<td><strong>(1,953,882)</strong></td>
<td><strong>(1,938,486)</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET POSITION**

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$93,110</strong></td>
<td><strong>$74,639</strong></td>
</tr>
</tbody>
</table>
Part III – Notes to Consolidated Financial Statements

Note I – Summary of Significant Accounting Policies

Pages 16-17: Loans Receivable

Loans receivable consist of direct loans and defaulted guaranteed loans receivable. Included in direct loans are vendee loans, acquired loans, and Native American direct loans. These three types of loans receivable are part of the VA Loan Guaranty Program. Direct loans also include loans on Veterans’ insurance policies. The loans receivable are secured by the underlying real estate and insurance policies. The present value of the cost VA will bear as guaranteed loans default is an element of the mortgage loan benefit that VA provides to Veterans. This cost is reflected in the financial statements as the liability for guaranteed loans and the allowance for subsidy for defaulted guaranteed loans included in the balance of loans receivable. …

Veterans that are government life insurance policyholders with permanent plan coverage or paid-up additional insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The loan amount may not exceed 94 percent of the cash surrender value of the policy or the paid-up additional insurance. Prior to November 2, 1987, policy loans were issued at fixed rates depending on the fund and time period. The remaining fixed rate loans are at 4 percent and 5 percent. All policy loans issued since November 2, 1987, have a variable interest rate with a minimum of 5 percent and a maximum of 12 percent. Rate changes are tied to the ten-year constant maturities, U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5 percent since October 1, 2001.

The interest due is equal to the interest rate times the loan balance as of the loan anniversary date. Any interest for the year not paid within 20 days of the anniversary date is added to the loan balance. Policyholders may repay loans at their discretion as long as the loan amount plus accumulated interest does not exceed 94 percent of the cash surrender value. If this occurs, the policyholder is notified that their policy will be surrendered unless a minimum payment is received within 90 days. At the policyholder’s death or the maturity of the policy, any loan indebtedness is deducted from the insurance proceeds.

Page 21: Accounts Payable

Accounts payable are amounts owed by VA for goods and services received from, progress in contract performance made by, and rents due to other entities and scheduled compensation, pension and education benefits payable to Veterans. Accounts payable do not include liabilities related to on-going continuous expenses such as employee’s salaries, benefits, annuities for insurance programs, interest payable and loan guarantee losses and Veterans compensation, pension and education benefits payable, which are covered by other liabilities. When VA accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, VA recognizes a liability for the unpaid amount of the goods and services. If invoices for those goods and services are not available when financial statements are prepared, the amounts owed are estimated.3

2 Also disclosed in VA Financial Report, Note 7, Direct Loans and Guarantees, Part III- page 33
3 IBNR per VA task force members
Pages 23-24: Insurance Liabilities

Insurance Liabilities for VA’s life insurance programs include: policy reserves; unearned premiums; insurance dividends left on deposit and related interest payable; accrued interest payable on insurance policies and dividends payable to policyholders.

Actuarial reserve liabilities for VA’s insurance programs for 2014 and 2013 are based on mortality and interest rate assumptions that vary by fund, type of policy, and type of benefit. The interest rate assumptions range from 2.25 to 4.0 percent. The mortality assumptions include the American Experience Table, the X-18 Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, and the 2001 Valuation Basic Male (VBM) Table.

National Service Life Insurance (NSLI) basic policy reserves for permanent plans are based on the American Experience Table with 3 percent interest, except for the Modified Life plans, which are based on the 1958 CSO Basic Table with 3 percent interest, and paid-up additions purchased by dividends, which are based on the 2001 VBM Table with 4 percent interest. The reserve for Term policies is based on the 2001 VBM Table with 4 percent interest and the age 70 rate (the capped premium) of $6.18 per month per $1,000 face amount.

United States Government Life Insurance (USGLI) permanent plan policy reserves are based on the American Experience Table with 2.5 percent interest and are held on a net single premium basis.

Veterans Special Life Insurance (VSLI) permanent plan policy reserves are based on the X-18 Table at 2.5 percent interest, except for paid-up additions, which are based on the 2001 VBM Table with 4 percent interest. The reserve for Term policies is based on the 2001 VBM Table with 4 percent interest and the age 70 rate (the capped premium) of $5.87 per month per $1,000 face amount.

Service-Disabled Veterans Insurance (S-DVI) permanent plan policy reserves are based on the 1941 CSO Table at 3.5 percent interest using rate book premiums. The reserve for 5-Year Term policies is based on varying ratios of the 1941 CSO Table at 3.5 percent interest using rate book premiums and is computed on a complete contract basis. The mortality ratios start at 250 percent for ages 50 and below and grade down to 100 percent of the table for ages 65 and older. The reserve for Term policies renewed at age 70 and over is based on the 1941 CSO Table with 3.5 percent interest and the age 70 Term capped premium of $5.87 per month per $1,000 face amount.

Veterans Reopened Insurance (VRI) basic policy reserves are based on an interest rate of 3.5 percent and a mortality basis that varies by segment ("J", "JR" or "JS") and by rating code within the "JR" segment. For "J", the basis is 100 percent of the 1958 CSO Basic Table. For "JR", the basis is the same as the rating code (150, 175, 200, 250, 300, 400 or 500 percent) of the Basic Table. For "JS", the basis is the American Experience Table, and the reserve is a single premium. Reserves for paid-up additions are based on the 2001 VBM Table and 4 percent interest for "J", the 1958 CSO Basic Table and 4 percent interest for "JR", and 150 percent of the 1958 CSO Basic Table and 4 percent interest for "JS".

The Veterans’ Mortgage Life Insurance (VMLI) program is operated through the Veterans’ Insurance & Indemnities (VI&I) fund. The reserve for VMLI policies is based on 500 percent of the 1958 CSO Basic Table at 2.5 percent interest.
A reserve for unearned premiums is held for premiums paid for coverage past the date of the statement. It is comprised of an estimate for premiums paid less than one month in advance that are unearned at the end of the reporting period, and a reserve for premiums paid one month or more in advance computed from in-force master records.

Insurance dividends that are left on credit or deposit with VA, accrue interest at a rate that varies by fund relative to the fund’s investment portfolio earnings. For 2014 and 2013, the interest rates ranged from 3.5 percent to 5.0 percent.

The Secretary of VA determines annually the excess funds available for dividend payment. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance; or (5) deposit the amount in an interest-bearing account. Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI and VRI. The dividend authorization is based on an actuarial analysis of each program’s claims and investment experience, compared to the mortality and interest assumptions utilized in that program at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. A provision for dividends is charged 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.

The reserve for Dividends Payable is an estimate of the present value of dividends accrued as of the valuation date. In accordance with GAAP requirements, VA records only that portion of the estimated policy dividend that applies to the current reporting period as a dividend liability. For 2014, a discount rate of 4 percent (2.5 percent for USGLI), along with the appropriate accrual factor, was used. For 2013, a discount rate of 4 percent (5 percent VSLI), along with the appropriate accrual factor, was used. The methodology employed by VA to estimate the dividend liability reflects expected dividends to be paid by quarter using percentages that are based on the actual distribution of dividend anniversaries at the end of the prior year.

Note 17: Insurance Programs

Pages 55-57

Through VA, the Government administers six life insurance programs: the United States Government Life Insurance (USGLI) program; the National Service Life Insurance (NSLI) program; the Veterans Special Life Insurance (VSLI) program; the Veterans Reopened Insurance (VRI) program, which covers Veterans who served during World Wars I, II, and the Korean Conflict eras; the Service-Disabled Veterans Insurance (S-DVI) program; and the Veterans Mortgage Life Insurance (VMLI) program, which covers severely disabled Veterans and are open to new issues. VMLI is part of the Veterans Insurance and Indemnities (VI&I) fund.

In addition, VA supervises the Servicemembers Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs, which provides coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans and their families. All SGLI insureds are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to Veterans who suffer a serious traumatic injury in service. VA has entered into a group policy with the Prudential Insurance Company of America to administer these programs.
Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their families are deducted from the Servicemember’s pay by the Armed Services components through the DOD. DOD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential’s insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential’s accounting records and are not reflected in the VA reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. Prudential administers the TSGLI 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.

The Secretary of VA determines the claim costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The costs so identified by the Secretary are paid by the uniformed services, not from the Servicemembers’ premiums, as are all other programs costs.

The insurance reserves for the administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and VI&I reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential’s financial records since the risk of loss is assumed by Prudential and its reinsurers. United States Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions that vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 to 4 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, the 2001 CSO Table and the 2001 Valuation Basic Male (VBM) Table.
### Insurance Liability (Reserve) Balances as of September 30, 2014

<table>
<thead>
<tr>
<th>Program</th>
<th>Insurance Death Benefits</th>
<th>Death Benefit Annuities</th>
<th>Disability Income &amp; Waiver</th>
<th>Reserve Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSLI</td>
<td>$ 4,448</td>
<td>$ 57</td>
<td>$ 27</td>
<td>$ 4,532</td>
</tr>
<tr>
<td>USGLI</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>VSLI</td>
<td>1,408</td>
<td>6</td>
<td>11</td>
<td>1,425</td>
</tr>
<tr>
<td>S-DVI</td>
<td>575</td>
<td>6</td>
<td>777</td>
<td>1,358</td>
</tr>
<tr>
<td>VRI</td>
<td>155</td>
<td>1</td>
<td>1</td>
<td>157</td>
</tr>
<tr>
<td>V&amp;I</td>
<td>213</td>
<td></td>
<td></td>
<td>213</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$ 6,801</strong></td>
<td><strong>$ 72</strong></td>
<td><strong>$ 816</strong></td>
<td><strong>$ 7,689</strong></td>
</tr>
</tbody>
</table>

**Unearned Premiums**

Unearned Premiums: 49

**Insurance Dividends Left on Deposit and Related Interest Payable**

Insurance Dividends Left on Deposit and Related Interest Payable: 1,346

**Dividends Payable to Policyholders**

Dividends Payable to Policyholders: 59

**Unpaid Policy Claims**

Unpaid Policy Claims: 2

**Insurance Liabilities reported on the Consolidated Balance Sheet**

Insurance Liabilities reported on the Consolidated Balance Sheet: $ 9,145

**Less Liability not Covered by Budgetary Resources**

Less Liability not Covered by Budgetary Resources: (1,442)

**Liability Covered by Budgetary Resources**

Liability Covered by Budgetary Resources: $ 7,703
## Insurance Liability (Reserve) Balances as of September 30, 2013

<table>
<thead>
<tr>
<th>Program</th>
<th>Insurance Death Benefits</th>
<th>Death Benefit Annuities</th>
<th>Disability Income &amp; Waiver</th>
<th>Reserve Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSLI</td>
<td>$ 5,050</td>
<td>$ 65</td>
<td>$ 34</td>
<td>$ 5,149</td>
</tr>
<tr>
<td>USGLI</td>
<td>3</td>
<td>2</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>VSLI</td>
<td>1,452</td>
<td>6</td>
<td>11</td>
<td>1,469</td>
</tr>
<tr>
<td>S-DVI</td>
<td>541</td>
<td>6</td>
<td>741</td>
<td>1,288</td>
</tr>
<tr>
<td>VRI</td>
<td>179</td>
<td>1</td>
<td>2</td>
<td>182</td>
</tr>
<tr>
<td>VI&amp;I</td>
<td>200</td>
<td></td>
<td></td>
<td>200</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$ 7,425</strong></td>
<td><strong>$ 80</strong></td>
<td><strong>$ 788</strong></td>
<td><strong>$ 8,293</strong></td>
</tr>
</tbody>
</table>

**Unearned Premiums** 54

**Insurance Dividends Left on Deposit and Related Interest Payable** 1,438

**Dividends Payable to Policyholders** 68

**Unpaid Policy Claims** 1

**Insurance Liabilities reported on the Consolidated Balance Sheet** $ 9,854

**Less Liability not Covered by Budgetary Resources** (1,352)

**Liability Covered by Budgetary Resources** $ 8,502
Insurance In-Force

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The supervised programs’ policies and face value are not reflected in the VA reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. As a result, the information provided below under the Supervised Programs is for informational purposes only and is unaudited. Prudential and its reinsurers provided coverage to 5,739,444 and 5,894,490 policy holders with a face value of $1.3 trillion for both 2014 and 2013. The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in-force for both 2014 and 2013. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

<table>
<thead>
<tr>
<th>Supervised Programs (UNAUDITED)</th>
<th>2014 Policies</th>
<th>2013 Policies</th>
<th>2014 Face Value</th>
<th>2013 Face Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGLI Active Duty</td>
<td>1,461,000</td>
<td>1,504,000</td>
<td>$563,681</td>
<td>$582,115</td>
</tr>
<tr>
<td>SGLI Ready Reservists</td>
<td>753,500</td>
<td>761,500</td>
<td>253,499</td>
<td>261,262</td>
</tr>
<tr>
<td>SGLI Post Separation</td>
<td>91,000</td>
<td>100,000</td>
<td>33,798</td>
<td>37,431</td>
</tr>
<tr>
<td>SGLI Family - Spouse</td>
<td>1,037,000</td>
<td>1,055,000</td>
<td>102,200</td>
<td>104,071</td>
</tr>
<tr>
<td>SGLI Family - Children</td>
<td>1,972,000</td>
<td>2,048,000</td>
<td>19,720</td>
<td>20,480</td>
</tr>
<tr>
<td>TSGLI*</td>
<td>-</td>
<td>-</td>
<td>221,450</td>
<td>226,550</td>
</tr>
<tr>
<td>VGLI</td>
<td>424,944</td>
<td>425,990</td>
<td>66,002</td>
<td>64,418</td>
</tr>
<tr>
<td>Total Supervised</td>
<td>5,739,444</td>
<td>5,894,490</td>
<td>$1,260,350</td>
<td>$1,296,327</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Administered Programs</th>
<th>2014 Policies</th>
<th>2013 Policies</th>
<th>2014 Face Value</th>
<th>2013 Face Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSLI</td>
<td>438,252</td>
<td>509,337</td>
<td>$5,462</td>
<td>$6,297</td>
</tr>
<tr>
<td>VSLI</td>
<td>130,637</td>
<td>140,336</td>
<td>1,847</td>
<td>1,955</td>
</tr>
<tr>
<td>S-DVI</td>
<td>260,895</td>
<td>251,497</td>
<td>2,725</td>
<td>2,620</td>
</tr>
<tr>
<td>VRI</td>
<td>17,492</td>
<td>20,568</td>
<td>185</td>
<td>216</td>
</tr>
<tr>
<td>USGLI</td>
<td>1,071</td>
<td>1,572</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>VMLI</td>
<td>2,485</td>
<td>2,419</td>
<td>313</td>
<td>295</td>
</tr>
<tr>
<td>Total Administered</td>
<td>850,832</td>
<td>925,729</td>
<td>$10,534</td>
<td>$11,387</td>
</tr>
<tr>
<td>Total Supervised and Administered Programs</td>
<td>6,590,276</td>
<td>6,820,219</td>
<td>$1,270,884</td>
<td>$1,307,714</td>
</tr>
</tbody>
</table>

*TSGLI coverage is a rider attached to SGLI coverage, so policies under SGLI also have TSGLI.
Policy Dividends

The Secretary of VA determines annually the excess funds available for dividend payment. Policy dividends for 2014 and 2013 were $129 million and $152 million, respectively.
TAB H – Appendices
(Optional Reading for Reference)

Risk Assumed:
Insurance Programs

<table>
<thead>
<tr>
<th>#</th>
<th>Appendix</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Risk Assumed - Project Decision History and Milestones</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>Federal Life Insurance Policies</td>
<td>13</td>
</tr>
<tr>
<td>C</td>
<td>General Life Insurance Information</td>
<td>21</td>
</tr>
</tbody>
</table>
TAB H – Appendix A
(Optional Reading for Reference)

Risk Assumed:
Insurance Programs

Project Decision History and Milestones
(Optional Reading for Reference)
Risk Assumed: Insurance Programs
Project Decision History and Milestones

June 2015:
At the June 2015 Board meeting, the Board continued to review the updated proposed insurance standards for risk assumed. Staff provided the Board with updated information that can be found on the Risk Assumed project page at:

The following items were discussed:

Estimated Losses on Remaining Coverage:
The Board reviewed the proposed language for measuring estimating losses on remaining coverage and returned to their original plan to require expected value, with more definitive language. In the event that expected value is not feasible or appropriate, the most likely amount would then be required. All Board members approved, except Mr. McCall who was absent, and Mr. Engel who was sitting in for Mr. Dacey, stating that Mr. Dacey preferred the most likely amount first and then expected value. Board members noted that the approved order and language should clarify and address any audit issues.

Subsequent Events:
The Board asked staff to provide a better transition from estimating losses on remaining coverage to subsequent events.

Proposed Insurance Program Categories:
Staff recommended three categories: 1) exchange revenue insurance programs other than life insurance, 2) nonexchange revenue insurance programs, and 3) life insurance programs.

Staff explained that SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, provides the definition for revenue types, and noted that SFFAS 7 and SFFAS 5, Accounting for Liabilities of The Federal Government, are in synch. Therefore, SFFAS 7 will identify whether a transaction is exchange or nonexchange and the related timing and recognition of revenue; while SFFAS 5 will govern when the associated loss becomes a liability.

Exchange revenue insurance programs other than life insurance category:
The exchange revenue insurance programs collect revenue through contracts/agreements. This category precludes separate categories for short- and long-duration contracts because the proposed standards will require
disclosures by portfolio. Therefore, agencies should include short- and long-duration contracts in separate portfolios according to their similar characteristics.

The transactions that fall within this category may also need appropriations and/or borrowing for funding. Nonexchange revenue may also be collected in the form of fees and fines, not in relation to a contract, but in response to punitive actions. These additional types of funding should be captured in a proposed disclosure schedule. The Board approved the exchange revenue category.

Nonexchange revenue insurance programs category:
Nonexchange revenue programs collect money demanded by the government, such as dedicated taxes and regulated fees. Nonexchange transactions need to be tracked separately because they are not related to contracts and losses are only recognized when they occur. Therefore there will be no liability for losses on remaining coverage, only liabilities for unpaid claims. The Board approved the nonexchange revenue category.

Life insurance category:
Staff recommended life insurance as a separate category because: 1) life insurance has a different risk profile—death always occurs resulting in a payout, whereas an adverse event for exchange and nonexchange transactions might not occur, 2) SFFAS 5 already separates it out, and 3) there will be a liability on future policy benefits which is different than a liability for losses on remaining coverage. The Board approved the life insurance category.

The government-wide (GW) financial report:
In relation to the proposed disclosure schedules in each category, the Board wanted to know if staff will recommend the same detail at the GW level. Staff noted that only certain pieces will be proposed. Staff also acknowledged Treasury’s comment that FASAB should only require information at the GW level that is required at the component level, and will address the GW standards once the standards for all of the categories have been addressed.

April 2015:

Staff continued to review the updated proposed insurance standards at the April 2015 Board meeting.

The Board approved the following items:

- The adverse event and IBNR definitions in order to clarify the recognition and measurement of claims incurred but not recorded (IBNR).

- The wording...“Estimates should be based on ... using all available information that existed at the balance sheet date, experience with previous transactions and
historical trends, and, as appropriate, the views of independent experts… in the recognition and measurement of the liability for losses on remaining coverage.

The Board identified the following changes:

- **Liability for unpaid losses**: provide more clarity about the timing of a series of events to address the recognition and measurement of IBNR.

- **Liability for losses on remaining coverage**:
  - Update subsequent event disclosure requirement in reference to SFFAS 39 because events that happen after the balance sheet are subsequent events that will not be recognized.
  - Remove expected cash flows as a single measurement model and replace it with wording such as…probability assessments affected by trends to determine the most likely estimate, or, if a most likely estimate is not available, then use the expected cash flow method.
  - Avoid using the word “contingency”—which will remain in SFFAS 5—because this liability is comparing the estimated losses to unearned premiums, whereas SFFAS 5 speaks only to liabilities.

- **Premium pricing disclosure**: remove the word subsidy and subsidy rate, reword, and provide an illustration.

- **“Condensed” insurance program disclosure**: reference disclosures that are already available in audited financial statements.

- **Consolidated Financial Report disclosures**: remove unearned premiums and gross claims and related earned revenue, and reword information about insurance in force.

**February 2015:**
The Board reviewed the proposed standards during the February 2015 meeting and approved the following:

**Scope Section #2**: add qualifying language to address accounting for such items as borrowing, investing, and appropriations that are found in other Statements to the new sentence—Matters not addressed in this Statement should be reported in accordance with other standards.

**Criteria for Insurance Programs:**

1. Include a.i. in the basis for conclusions.
2. Move a.ii criteria as follows:
   - Exchange criteria is now included in the premiums definition,
   - Nonexchange will be presented in a future version,
   - Recoveries is now its own definition, and
   - Investment income and budget authority is included in the disclosure section.

3. Consolidating a.iii – v criteria into the insurance contract definition

   **Insurance Program Classifications:** staff will conduct more research to identify and present classifications that will capture all current and future insurance programs.

   **Liability for Losses for Remaining Coverage:** adopt the name Liability for Losses for Remaining Coverage instead of Liability for Premium Deficiency.

   **Disclosure for Breaking out Insurance Program Information:**

   - “Major” in relation to “For each major insurance program” is hard to define in relation to materiality,
   - FASAB, as a standard setting body, cannot define “program,” and “Major category of insurance,” might work better.
   - Staff will continue to work on what detail to include and at what level to report it for the component and consolidated financial report (CFR).

   **Revenue and Measurement:** remove the word the word “liability” from unearned revenue.

   **Paragraph 16:** change the word “billed” to “collected or due.”

   **Paragraph 17:** remove paragraph 17 because future adjustments to premiums based on experience ratings should be recognized as normal premium revenue over the contract period and is covered in paragraph 15.

   **Paragraph 18b:** restate the second sentence to read: *Recoveries should not be recognized as revenue, but rather as reductions of claims expense.*

   **Paragraph 21:** change the word “less” to “over:”

   **Paragraph 21 a & d:** delete the word “probable” and focus on measuring liabilities using the expected value of estimated outflows net of remaining insurance coverage recognized at the end of the reporting period.

   **Paragraph 21.b:** change 21.b. to read: *Management’s judgment based on experience, and in some cases, the views of independent experts.*
Paragraph 21.e: remove a reference to a range because paragraph 21 will be rewritten to focus on the expected value and all numbers for expected value carry the same weight.

Paragraph 22: update paragraph 22 to read: Adjustments to the liability for remaining insurance coverage should be recognized as losses or gains on remaining insurance coverage.

Paragraph 23: include a brief description of the insurance programs similar to the standards for loan programs.

Paragraph 23.c: change “paid claims” to “payments.”

December 2014:

Claims Adjustment Expenses: The Board approved including Claims Adjustment Expenses in the Liability for unpaid claims if they are related to claims.

Liability for Premium Deficiency/Net Future Losses: The Board approved including a Liability for Premium Deficiency in addition to the Liability for Unpaid Claims.

Additional Items:
The Board approved:
- Differentiating between insurance programs who receive appropriations to finance subsidies and those who borrow to finance subsidies,
- Classifying revenue for insurance programs that receive subsidies as exchange or non/exchange revenue, and
- Distinguishing between short-duration and long-duration insurance contracts.

October 2014:

Borrowing Disclosure: The Board decided to require insurance programs to disclose their borrowing authority, borrowing balances, interest expense, the ability to repay the borrowing, and explain any material differences in accordance with SFFAS 1, SFFAS 5, and SFFAS 7, but will not prescribe how or where the program will logistically place the disclosures.

Earned/Unearned Premiums: In relation to recognizing and disclosing earned and unearned premiums, the Board directed staff to begin with the revenue standards available in SFFAS 7, paragraphs 36–37, and include in the new standards guidance specific to insurance contracts but consistent with SFFAS 7.
Proposed Standard: In relation to the wording for the proposed standard, staff noted that the criteria for insurance programs will most probably be moved to the Basis for Conclusion section because it did not add anything to the insurance program definition.

The Board requested that staff:

- Rewrite paragraph 19 to allow for more flexibility in aggregating types of insurance programs
- Merge 19a and 19b in order to reduce duplicity and tie any explanations for material differences to the chart line items.
- Rewrite 19g to request a disclosure on how premium prices are determined and contribute to managing risk.

August 2014:

The Board approved changing the name of this phase to Risk Assumed: Insurance Programs.

The Board approved the following definition, criteria, and exclusions:

A. DEFINITION:

Insurance programs\(^1\) are authorized by law to accept all or part of the risk for losses incurred by a designated population of beneficiaries as a result of an adverse event by financially compensating them.

B. CRITERIA:

- Insurance programs are administered by an agency established to do so or within an agency that administers many programs.
- Insurance programs collect exchange or non-exchange revenue that may be earned through, but is not limited to, any or all of the following: premiums,\(^2\) fees paid, excise taxes, penalties and/or fines, recoveries,\(^3\) interest received

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\(^1\) Insurance programs will also include guarantee programs not designed for loan/debt guarantees.
\(^2\) The term “premiums” will be used to mean premiums, fees paid, excise taxes, penalties and/or fines.
\(^3\) Recoveries may be monies recouped or recovered from: (1) another agency through an indemnification agreement, (2) a third party or commercial insurance company to repay all or part of a loss originally paid for by the program, and/or (3) the sale of salvable parts through acquisition and disposal or salvage of assets. Recoveries may also be adjustments to already paid claims where the claimant owes money back to the program for a loss that wasn’t realized.
from investments and/or receivables, and/or budget authority including appropriations and borrowing authority.4

- Insurance programs create an agreement5 or arrangement that specifically states:
  - the role the program will play,
  - who the parties are that may contribute funding,
  - the designated population that may be beneficiaries and their responsibilities for receiving compensation for losses,6
  - funding requirements,
  - financial compensation to be paid,
  - the adverse event (other than a defaulted debt obligation), and
  - if and how much to place in reserves.

- Insurance programs assume risk for the uncertainty of an adverse event occurring (other than a defaulted debt obligation), and the amount of compensation expected to be paid for losses.

- Through insurance programs the federal government assumes:
  - all risk for covered losses;
  - partial risk by filling a gap where commercial insurance companies are not able or willing to provide the insurance; or
  - a timing risk wherein the insurance program provides compensation for losses at the time claims are received and processed in anticipation that future funding sources will be sufficient to cover all or part of past benefits paid.

C. EXCLUSIONS:

a. Loan guarantee programs as defined in SFFAS 2 (as amended) are not included as insurance programs.

b. Social insurance programs as defined in SFFAS 17 (as amended) are not included as insurance programs.7

c. Disaster relief programs that provide discretionary funding, goods, and/or services are not included as insurance programs.8

4Sources of funding are broad and the charging of "premiums" (or other fees) is not necessary for a program to qualify as an insurance program.
5Insurance programs may enter into explicit arrangements or agreements with specific individuals, state, local, or foreign governments, other federal agencies, or businesses to carry out their mission.
6Beneficiaries may or may not directly participate in an explicit agreement/arrangement prior to becoming eligible to receive compensation. An example where a beneficiary does directly participate and receives compensation is when a U.S. investor purchases risk insurance for political violence and upon an act of political violence that impacts their business investment may receive compensation. An example where beneficiaries do not directly participate is when a service provider pays premiums directly to a federal insurance program and upon failure provides a list of customers as beneficiaries whom the program may compensate.
7Includes unemployment insurance as this is captured also in SFFAS 17.
8Criteria updated due to discussion with Chairman Allen concerning funding that was provided to Washington State mudslide victims in addition to goods and services. In addition, it is the Stafford Act that authorizes and regulates disaster relief programs.
d. Entitlement programs that administer eligibility requirement applications to provide means tested benefits are not included as insurance programs.

e. “Self-insurance,” where the government assumes the risk of loss for some its own activities⁹ is not included as insurance programs.

f. Programs whose missions are not by statute to provide insurance but which process claims through an administrative or judicial process¹⁰ are not included as insurance programs.

g. Programs whose missions are not by statute to provide insurance but which provide security against loss or damage through contractual indemnification of another party¹¹ are not included as insurance programs.

Insurance in Force: The Board agreed to disclose insurance in force—the amount the program would pay out if all contracts experienced maximum loss for the remaining coverage at the end of the reporting period.

Projections: The Board tentatively agreed not to require projections for insurance programs. However, the Board did agree that the issue for projections would remain open, because they might want to address it for other types of programs in future phases of the risk assumed project.

April 2014

The Board revisited the definition and reviewed the similarities and differences with loan guarantee programs under the Federal Credit Reform Act and asked staff to address the following questions/concerns:

1) Distinguish insurance/non-loan guarantee programs from loan guarantee programs in the definition.

2) What value does the term “non-loan guarantees” add? Can it be removed from the definition?

3) Clarify the exclusion of disaster relief programs in relation to the type of compensation provided.

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¹⁰ An example is an administrative settlement of tort claim resulting from military events.
¹¹ These are administrative settlements for transactions occurring by contractors with FAR authorized indemnification clauses or first responders within programs that do NOT have a statutory insurance or guarantee mission.
March 2014:

The Board generally agreed with the insurance/non-loan guarantee definition, upon updates from Mr. Dacey, as well as the characteristics and exclusions presented in the staff memo with the understanding that as staff develops the standard and new information is discovered changes are possible and will be finalized within the standard.

Staff worked with Mr. Dacey to update some of his concerns with the definition.

The following is the revised definition:

A federal insurance/non-loan guarantee program is a program authorized by law to accept all or part of the risk by financially compensating the designated population for losses incurred as a result of an adverse event as defined by the:

A. law or otherwise enforceable by law,
B. related regulations,
C. agency policies, or
D. explicit arrangements or agreements

December 2013:

1. The Board agreed with staff’s recommendation that it would be difficult to apply the FASB proposed insurance contracts definition to federal insurance/guarantee programs
   o Board requested and Staff agreed to present FASB’s proposed definition to the Task Force during the development of the federal definition

2. The Board agreed with Staff’s next step to develop a general definition and specific characteristics of insurance and guarantee programs.

June 2013:

1. The Board agreed with staff’s recommendation to ask the four federal entities identified to respond to specific questions on FASB’s insurance contracts proposal. Staff would use those responses to identify application concerns that would be unique to a federal entity.
2. The Board agreed to further narrow the scope to federal insurance and guarantee programs rather than contracts to support the structure of the federal environment and president’s budget.

**February 2013:**

The risk assumed project will be addressed in a **phased approach**:

- **Phase I**: Insurance and Guarantees
- **Phase II**: Entitlement Programs, including: national defense, security and disaster response; and other potential effects on future outflows, such as regulatory actions, GSE’s, etc.
- **Phase III**: Commitments and Obligations and other risk areas
Federal Life Insurance Policies
(Optional Reading for Reference)
<table>
<thead>
<tr>
<th>Life Insurance Programs</th>
<th>Acronym</th>
<th>Description</th>
<th>Type of Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Office of Personnel Management (OPM):</strong></td>
<td>FEGLI</td>
<td>For federal employees, including employees on foreign duty.</td>
<td>FEGLI is term insurance and builds no cash value. However, it can be assigned and BASIC life coverage can be cashed in for those employees who are terminal (9 months or less to live). Variations of this product exists depending on how much coverage the federal employee wants to purchase</td>
</tr>
<tr>
<td>Federal Employee Group Life Insurance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>State Department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses FEGLI</td>
<td></td>
<td>Also for Foreign duty stations</td>
<td></td>
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<tr>
<td><strong>Department of Veterans Affairs (VA):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>United States Government Life Insurance (USGLI)</strong></td>
<td></td>
<td>For Veterans who served in World War I and through October 8, 1940</td>
<td></td>
</tr>
<tr>
<td><strong>Service-disabled Veterans Insurance Fund (SDVIF)</strong></td>
<td></td>
<td>For Veterans separated on or after Apr. 25, 1951 who receive a service-connected disability rating</td>
<td></td>
</tr>
</tbody>
</table>
**Veterans’ Group Life Insurance (VGLI)** is a program that allows you to continue life insurance coverage after you separate from service. VGLI provides lifetime coverage as long as you pay the premiums. You may enroll for a maximum amount of coverage that is equal to the amount of Servicemembers’ Group Life Insurance (SGLI) coverage you had when you separated from service. Lesser amounts of coverage are also available in increments of $10,000. Once enrolled in VGLI, you will have the opportunity to increase your coverage by $25,000 every five years up to the legislated maximum of $400,000, until age 60. No proof of good health is required.

**Enrollment Period**
You have 1 year and 120 days from your date of separation to apply for VGLI. If you apply for coverage within 240 days of your date of separation, you will not need to answer health questions.

**Eligibility**
You are eligible to apply for VGLI, if you had SGLI, and are within 1 year and 120 days of the following events:

- Release from active duty or active duty for training under a call or order to duty that does not specify a period of less than 31 days.
- Separation, retirement or release from assignment from the Ready Reserves/National Guard.
- Assignment to the Individual Ready Reserves (IRR) of a branch of service or to the Inactive National Guard (ING). This includes members of the United States Public Health Service Inactive Reserve Corps (IRC).
- Placement on the Temporary Disability Retirement List (TDRL)

You are also eligible to apply for VGLI, if you had part-time SGLI and while performing duty, suffered an injury or disability that rendered you uninsurable at standard premium rates. This includes travel directly to and from duty.

**Cost/Rates**
VGLI Premiums are based upon the Veterans age. Premium rates increased for VGLI insureds age 70 and older effective July 1, 2014. Follow this link to view VGLI premium rates.

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**Servicemembers Group Life Insurance (SGLI)**
SGLI is a program that provides low-cost term life insurance coverage to eligible Servicemembers. If eligible, you are automatically issued the maximum SGLI coverage. If you qualify for SGLI, you are automatically enrolled and do not need to apply for coverage.

Servicemembers can make changes to your SGLI coverage. For example, Servicemembers can decline SGLI coverage, select a lesser amount than maximum coverage, designate beneficiaries, and/or make other changes.

**Eligibility**
You are automatically insured under full-time SGLI if you are one of the following:
- Active duty member of the Army, Navy, Air Force, Marines, or Coast Guard
- Commissioned member of the National Oceanic and Atmospheric Administration (NOAA) or the U.S. Public Health Service (USPHS)
- Cadet or midshipman of the U.S. military academies
- Member, cadet, or midshipman of the Reserve Officers Training Corps (ROTC) engaged in authorized training and practice cruises
- Member of the Ready Reserve or National Guard and are scheduled to perform at least 12 periods of inactive training per year
- Servicemember who volunteers for a mobilization category in the Individual Ready Reserve (IRR)

**SGLI coverage** is available in $50,000 increments up to the maximum of $400,000. Covered members receive 120 days of free coverage from their date of separation. Coverage can be extended for up to two years if the Servicemember is totally disabled at separation. Part-time coverage is also provided to Reserve members who do not qualify for full-time coverage (members covered part-time do not receive 120 days of free coverage). If you are totally disabled at the time of separation (unable to work), you can apply for the SGLI Disability Extension, which provides free coverage for up to two years from the date of separation. At the end of the extension period, you automatically become eligible for VGLI, subject to premium payments.

To assess your life insurance needs and determine if you have enough coverage, you can use the Insurance Needs Calculator.

**Ready Reserve or National Guard Members in Non-Pay Status**
You are generally still covered by SGLI if you are a member of the Ready Reserve or National Guard and are:

- scheduled to perform at least 12 periods of inactive training per year, AND
- are drilling for points, rather than pay.

SGLI premium rates are the same as those drilling for pay. However, each branch of service handles payment of premiums during this non-pay period differently. If you are a drilling Reservist or Guard member in a non-pay status and have questions about whether you are covered by SGLI and how to pay your premiums, view our [branch of service contact list](#) for the number to call for information.

**Cost/Rates**
If you have SGLI coverage, you pay a monthly premium that is automatically deducted from your base pay. The current basic SGLI premium rate is 7 cents per $1,000 of insurance. The premium includes an additional $1.00 per month for Traumatic Injury Protection coverage (TSGLI).
Government Life Insurance is issued in a variety of insurance plans. Select a plan below to view a brief description of that plan. This information is for policy numbers beginning with K, V, RS, W, J, JR, JS and RH. Information for: Servicemembers' Group Life Insurance policies (SGLI) and Veterans' Group Life Insurance policies (VGLI).

- 5 Year Level Premium Term
- Modified Life at Age 65

Modified Life at Age 70
- Special Ordinary Life
- Ordinary Life
- 20 Payment Life
- 30 Payment Life
- 20 Year Endowment
- Endowment at Age 60
- Endowment at Age 65
- Endowment at Age 96

Five Year Level Premium Term

- Available on all programs except "J," "JR," "JS"
- Renewable every five years
- May be converted to a permanent plan
- Provides low cost protection at younger ages but premiums increase substantially at older ages
- Provides protection only and has no cash or loan values *
- When premiums are not paid, the protection stops *

* Effective September 11, 2000, "capped" NSLI (V) and VSLI term policies receive a termination dividend that protects against the lapse of the policy. See more information about premium capping.

Modified Life at Age 65

- Available on all programs except "K"
- Can only be purchased before the insured attains insurance age 61
- Affords a permanent plan of insurance at a premium that is lower than the Ordinary Life Plan premium
- Provides an automatic reduction by of the face amount of the insurance on the day before the policyholder's 65th birthday. (The premium remains the same. The decreased amount of insurance may, without medical examination, be replaced with an Ordinary Life policy at an additional premium by making application no later than the day before the policyholder's 65th birthday.)
- Policy earns loan and cash values
Modified Life at Age 70

- Available on all programs except "K"
- Can only be purchased before the policyholder attains insurance age 69
- Affords a permanent plan of insurance at a premium that is lower than the Ordinary Life Plan premium
- Provides an automatic reduction by of the face amount of the insurance on the day before the insured veteran's 70th birthday. (The premium remains the same. The decreased amount of insurance may, without medical examination, be replaced with a Special Ordinary Life policy at an additional premium by making application no later than the day before the policyholder's 70th birthday.)
- Policy earns loan and cash values

Special Ordinary Life

This is insurance that is purchased when a Modified Life policy reduces by half on the policyholder's 65th or 70th birthday. It has the following features:

- Available on all programs except "K"
- Premiums will never increase
- **Premiums are payable for the lifetime of the policyholder**
- Policy earns loan and cash values

Ordinary Life

- Available on all programs
- Premiums remain constant
- Premiums are payable for the lifetime of the policyholder
- Policy earns loan and cash values

30 Payment Life

- Available on all programs
- **Premiums are slightly higher than on Ordinary Life**
- Premiums are payable for 30 years from the effective date of the policy
- Policy earns loan and cash values

20 Payment Life

- Available on all programs
- **Premiums are higher than on 30-Payment Life**
- Premiums are payable for 20 years
- Policy earns loan and cash values
20 Year Endowment

- Available on all programs
- Premiums are payable for 20 years from the effective date of the policy
- Provides for payment of the face amount of the policy (less any indebtedness) to the policyholder at the end of the 20 years
- Policy proceeds paid in lump sum or on an installment basis
- Policy earns loan and cash values

Endowment at Age 60

- Available on all programs except "K"
- Provides for the payment of the face amount (less any indebtedness) on the anniversary date nearest the policyholder's 60th birthday
- Policy earns loan and cash values

Endowment at Age 65

- Available on all programs except "K"
- Provides for the payment of the face amount (less any indebtedness) on the anniversary date nearest the policyholder's 65th birthday
- Policy earns loan and cash values

Endowment at Age 96

- Available to "K" policyholders, age 65 or older, who were still carrying insurance under the term plan
- Regular endowment plan maturing at age 96 with a level premium from the date of issue
- Does not provide permanent and total disability benefits, or waiver of premium
- Provides a waiver of premiums provision to be purchased for an additional premium at the time the insurance was exchanged
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| **State Department:** | **Uses FEGLI** | Also for Foreign duty stations |  |
TAB H – Appendix C

General Life Insurance Information
(Optional Reading for Reference)
The following information was available at http://www.nationwide.com/universal-life-insurance.jsp

Life insurance is a way to protect your family in the event of your death. The money your beneficiaries receive can be used to help pay your final expenses, take care of debt and cover the mortgage or rent.

**TERM life insurance**

- Term life insurance provides protection for a specific period of time, or term. It is most often sold in -10,-15, -20 and -30 year terms. The premium stays the same throughout the term. If the insured person dies during this period, the beneficiaries receive the proceeds income tax-free. At the end of each term, the insured may renew the policy (generally at a higher cost) up to age 95.

**WHOLE life insurance**

*Life Insurance Protection With a Fixed Rate of Interest* Whole life is the most common type of permanent life insurance. With whole life insurance, your premium payments remain the same over the life of the policy. You can choose how often you'd like to make premium payments, too — annually, semiannually, quarterly or monthly.

Some whole life policies can be paid up after a certain number of years. When you purchase a policy, you'll know how the cash value will grow over the life of your policy.

What is permanent life insurance? Whole life is the most common type of permanent life insurance. With whole life insurance, your premium payments remain the same over the life of the policy. You can choose how often you’d like to make premium payments, too — annually, semiannually, quarterly or monthly. Some whole life policies can be paid up after a certain number of years.

And because your policy earns a fixed rate of interest, it’s easy to predict the growth of your policy’s cash value over time. Whole life insurance is designed for the long-term, so before purchasing be sure to think about your ability to make premium payments consistently over the life of the policy.

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The following information is provided for your information - Per an email received from VA on July 1, 2015 email: [VA] products would be classified as whole life. VA has never had a universal life product. (Universal life became popular in the 1980’s when interest rates were high)
Why should I consider whole life? Whole life has certain advantages that may make it a useful financial protection tool for you and the ones you care about most. With its guarantees and other advantages, whole life can provide financial protection for the future.

Dividends/Excess credits - some whole life products may offer dividends (sometimes called excess credits) if the insurance company has favorable results from their mortality rates, expenses and investment earnings.

They are not guaranteed, but the dividends and excess credits can add value to your policy. Dividends, if available, may be used to add more coverage to the policy, reduce premium payments or be paid in cash. It’s your choice.

Access to the cash value, if you own a whole life policy; you can typically take a loan from your policy's cash value. How does a policy loan work? • No qualification is necessary — your policy’s cash value is used as collateral • The loan must be repaid with a moderate amount of interest • If any of the loan amount or interest is unpaid at the time of your death, it will be subtracted from the proceeds your beneficiaries receive.

You may also be able to withdraw any accumulated dividends without repayment. The drawback? Doing so may reduce future growth opportunities for your policy’s cash value.

It may happen that you need to cancel or, as the insurance company will call it, “surrender” your policy. If you do this, you’ll receive the policy’s cash value. Since whole life insurance is designed to be a long-term solution, if you surrender the policy in the first few years, the cash value you receive could be small.

**DEFINITION of:**

Cash Surrender Value

The sum of money an insurance company will pay to the policyholder or annuity holder in the event his or her policy is voluntarily terminated before its maturity or the insured event occurs. This cash value is the savings component of most permanent life insurance policies, particularly whole life insurance policies. Also known as "cash value", "surrender value" and "policyholder's equity".


Life insurance in force

The total value of life insurance policies that a company has issued. One may think of the life insurance in force roughly as the total amount that the insurance company would have to pay if all its life insurance policyholders died tomorrow as well as the dividends it must pay to whole life policyholders. http://financial-dictionary.thefreedictionary.com/Life+Insurance+in+Force
Universal life insurance provides permanent life insurance protection and access to tax-deferred cash values. We offer two types of universal life insurance, fixed and flexible.

**Fixed Premium Universal Life**

Fixed premium universal life insurance offers protection, however policy provisions cannot be changed after the policy has been issued.

**Flexible Universal Life Insurance**

The major advantage of UL is flexibility: you can change the protection level of the policy (within bounds) and you control the amount of frequency of payments (again, within bounds).

This life insurance offers protection for your family and strategies for leaving a legacy to them. It can also help small business owners with continuation planning.

**Variable universal life (VUL) insurance** is a life insurance product with investment features. It’s designed to help you protect the future of your family with life insurance and, at the same time, give you access to professionally managed investments that can help you save for retirement.

And, as if life insurance protection and a supplemental retirement investment weren’t enough, VUL insurance also gives you the opportunity to use the policy for many of your planned financial needs, like:

- Educational funding
- Estate planning
- Business continuation

Keep in mind that investing involves market risk, including the possible loss of principal. Also, know that the underlying investment options are only available in variable annuity and variable life insurance contracts. They are not offered directly to the public.

Protections and guarantees are subject to the claims-paying ability of the issuing life insurance company.

Keep in mind that taking money from your policy immediately reduces both the cash value and the death benefit payable, and can cause the need for more premiums to be paid into the policy in the future. You should always take care to ensure that your life insurance needs continue to be met over