



ASPE Accounting Insights Accounting Guideline 21

Accounting for Life Insurance Contracts with Cash Surrender Value

Introduction

Private enterprises often use life insurance contracts for numerous strategic reasons including, but not limited to, risk management, financial planning and owner-manager estate planning. Among the many uses, the most prevalent uses of life insurance contracts relate to the purchase of life insurance for key personnel. These contracts provide enterprises protection against the financial loss that might occur due to the death of a key employee or executive. These contracts provide a payout to the enterprise upon the death of a key individual whose skills, knowledge, or leadership are vital to the enterprise's success. This payout can be used to cover the costs of finding and training a replacement, offset lost revenue, or stabilize the enterprise during the transition period.

Life insurance policies often have both an insurance component, such as a death benefit, and an investment component, such as a cash surrender value. The cash surrender value is an entitlement to the owner and beneficiary of a life insurance contract which provides them with a cash amount if the owner cancels or surrenders the policy before its maturity date, net of any charges levied in the event the policy is cancelled or surrendered early.

The Accounting Standards Board ("AcSB") noted diversity in practice as it pertained to the recognition, measurement, presentation, and disclosure of life insurance contracts with a cash surrender value for the initial and ongoing recognition, presentation, and measurement of the cash surrender value in an insurance contract and accounting for the premiums paid. In response to this diversity, the AcSB issued Accounting Guideline 21 ("AcG-21" or the "Guideline") to provide more specific guidance on the accounting and reporting of life insurance contracts with a cash surrender value.

This publication highlights key accounting requirements for life insurance contracts with a cash surrender value as required by the Guideline.

Recognition

AcG-21 indicates that an enterprise will recognize, as an asset, the cash surrender value of a life insurance policy, when the enterprise becomes the owner and beneficiary of the underlying insurance contract. More specifically, if the enterprise has the authority to terminate the policy and determine the beneficiary of the death benefit, they will be required under AcG-21 to recognize the cash surrender value of the policy as an asset on its balance sheet.

Measurement

The Guideline specifies that an entity should initially and subsequently measure the cash surrender value at the amount that would be immediately realized upon termination of the policy, prior to the death of the insured as provided by the issuer of the policy, at the measurement date. This involves recognizing any increases or decreases in the cash surrender value as they occur, which can impact the entity's financial position and performance.

Presentation

AcG-21 requires an enterprise to present the difference between the aggregate policy premiums and the aggregate change in cash surrender value for the period on a net basis. A net credit is presented as income. A net debit is presented as an expense.

Disclosure

Consistent with the Guideline, an enterprise shall be required to disclose:

- If not separately presented on the face of the balance sheet, the carrying amount of cash surrender value in aggregate for all insurance policies with cash surrender value and the caption in the balance sheet that includes cash surrender value;
- amounts of acquisitions and terminations of insurance policies with cash surrender value during the period; and
- if not separately presented on the face of the income statement, the caption in the income statement that includes change in cash surrender value.

Effective date and transition

This Guideline applies to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

An enterprise shall apply the Guideline retrospectively, in accordance with Section 1506, Accounting Changes, but only to insurance policies that exist and have a cash surrender value on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline.

Conclusion and next steps

In practice, adhering to AcG-21 requires enterprise to carefully evaluate their life insurance contracts and regularly update the cash surrender value to reflect current conditions. This may involve working closely with insurance providers to obtain accurate valuations and ensuring any changes are promptly recorded in the financial statements. It will also be important to implement a process to monitor all insurance policies purchased and disposed to ensure the completeness of disclosures.

Overall, AcG-21 plays a vital role in the accounting landscape by addressing the unique aspects of life insurance policies and ensuring that their financial implications are transparently reported.

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