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FASB Makes Targeted Improvements to the Accounting for Certain Long-Duration Insurance Contracts

The Bottom Line

- The FASB has issued ASU 2018-12,[1] which amends the accounting model under U.S. GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods.
- For public business entities (PBEs), the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods therein. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.
- The FASB believes that the ASU's targeted improvements will provide more timely and useful information to financial statement users in addition to simplifying how insurers apply certain aspects of the accounting model for certain long-duration contracts.
- For transition, insurers will apply the ASU's amendments to all nonparticipating traditional and limited-payment contracts in force by using either a modified retrospective method or a full retrospective method. An insurer will apply the amendments related to market risk benefits retrospectively and calculate the transition adjustment by using the fair value of those benefits on the transition date. Hindsight may be used for certain unobservable assumptions.

[1] FASB Accounting Standards Update No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts.*

Beyond the Bottom Line

This *Insurance Spotlight* highlights key aspects of the targeted improvements to the accounting for long-duration insurance contracts. A summary of new disclosures required by ASU 2018-12 is provided in the appendix.

Introduction

The FASB recently issued ASU 2018-12, which amends the accounting and disclosure model for certain long-duration insurance contracts under U.S. GAAP. The Board believes that the ASU's amendments improve the following aspects of financial reporting related to long-duration insurance contracts:

- Measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts.
- Measurement and presentation of market risk benefits.
- Amortization of deferred acquisition costs (DAC).
- Presentation and disclosures.

Scope

The ASU's amendments do not change the types of entities that are subject to the long-duration insurance contract accounting and disclosure guidance under ASC 944.[2]

Liability for Future Policy Benefits Related to Certain Insurance Contracts

For nonparticipating traditional and limited-payment long-duration contracts, the ASU retains certain aspects of the net premium reserving model applied under current U.S. GAAP, including the principle that the liability for future policy benefits should be accrued as premium revenue is recognized. Under this model, an insurer computes a net premium ratio (which is computed as the present value of insurance contract benefits and expenses divided by the present value of gross premiums) and uses that ratio to compute the liability for future policy benefits. However, the ASU's amendments change several aspects of how an insurer will measure the liability for future policy benefits, including how frequently the insurer will update its cash flow and discount rate assumptions, the nature of those assumptions (i.e., use a current estimate that is reviewed for changes at least annually, without any provision for adverse deviation), the discount rate used for measurement, and how the insurer will account for its updated cash flow and discount rate assumptions.

Initial Measurement

Under the revised measurement model for nonparticipating traditional and limited-payment insurance contracts, an insurer's measurement of the liability for future benefits incorporates various assumptions, including:

- Discount rate.
- Mortality/morbidity.
- Terminations/lapses.
- Expenses (excluding acquisition costs and costs required to be charged to expense as incurred).

The insurer is prohibited from adding a provision for the risk of adverse deviation to its assumptions.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Discount Rate

Under the ASU, an insurer will measure the liability for future policy benefits by using a discount rate that (1) is based on the yield of an "upper-medium-grade (low-credit-risk) fixed-income instrument" (which would be the equivalent of an A-rated security in today's market) and (2) reflects the duration characteristics of the liability. In determining the rate, the insurer will "maximize the use of relevant observable inputs and minimize the use of unobservable inputs." This model differs from the current guidance in ASC 944 that requires an insurer to measure the liability related to nonparticipating traditional and limited-payment contracts by using a discount rate that is based on the insurer's estimate at contract inception of the anticipated investment yield on the underlying asset portfolio over the life of the contract (net of related investment expenses). In amending its discount rate guidance, the Board hoped to provide better information to financial statement users "about [the insurer's] duration risk and the spread between the return on [its] investment and [the] time value of the liability."

Connecting the Dots

As stated in the ASU's Background Information and Basis for Conclusions, the FASB emphasized operability when it developed the new discount rate guidance. The Board believes that the requirement for insurers to use an "independent observable market rate" will make insurance entities' financial reporting more comparable. In addition, the Board notes that "any adjustment for uncertainty in cash flow variability not reflected in that rate should be incorporated into the development of the estimated cash flows." However, the Board acknowledges that limited or no observable market prices may exist for certain points on the yield curve (e.g., for the tail end of very long-term liabilities) and that there may be periods of "market dislocation." In such circumstances, an insurer would estimate the discount rate by using the fair value measurement guidance included in U.S. GAAP (e.g., develop a Level 3 measurement).

Frequency of Assumption Updates

Discount Rate

Under the ASU, an insurer will update its discount rate assumptions on each reporting date. Therefore, such updates are required in both annual and interim reporting periods (i.e., quarterly for PBEs). However, as noted below, the impact of the change in discount rate will be reflected in other comprehensive income (OCI).

Cash Flow Assumptions

An insurer will review the cash flow assumptions it uses to measure the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts at least annually (at the same time each year) and update them as necessary. In addition, more frequent updates to the cash flow assumptions (i.e., in interim periods) will be required when evidence suggests that earlier revision to the cash flow assumptions is warranted. An insurer may also make an entity-wide election to lock in its expense assumption(s) at contract inception. That is, the insurer could elect to lock in the expense assumption(s) it used at inception and not update the expense assumption(s) for subsequent cash flow changes, although the insurer would still need to review all other cash flow assumptions and update them for any necessary changes at least annually regardless of its expense assumption election.

Thus, an insurer generally is not required to update its net premium ratio in interim periods to reflect its actual experience to date. Rather, the ASU requires an insurer to review and, if necessary, update its net premium ratio only annually unless evidence suggests that an interim update is needed.

Connecting the Dots

As noted in the ASU's Background Information and Basis for Conclusions, the Board believes that "a liability measured with updated assumptions provides more decision-useful information and more faithfully represents an insurance entity's obligation because it gives [financial statement] users a more current view of the insurance entity's expected cash flows and resulting contract profitability, as opposed to a historical view that includes a provision for adverse deviation."

Accounting for Assumption Updates

Under the ASU, when an insurer measures the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts, it cannot "group contracts . . . from different issue years but [must] group contracts into quarterly or annual groups" when it determines the level of aggregation to use for the measurement. When the insurer determines the impact of the change in cash flow assumptions for the contract group being measured, it will first recalculate a revised net premium ratio as of contract inception. As previously stated, this is computed as the ratio of (1) the present value of the total expected benefits and expenses (excluding acquisition costs and costs required to be charged to expense as incurred, which include "those [costs] relating to investments, general administration, policy maintenance costs, product development, market research, and general overhead")[3] to (2) the present value of total expected gross premiums. The insurer will determine the present values by using the discount rate at contract inception. Note that when the insurer computes the revised net premium ratio, it will determine its expected gross premiums as well as its expected benefits and expenses by combining its actual historical experience to date with its updated assumptions about future cash flows.

The insurer will then (1) calculate revised estimates of net premiums by applying the new net premium ratio, (2) compute an updated liability for future policy benefits as of the beginning of the reporting period by using the original (i.e., at contract issuance) discount rate, and (3) compare that updated liability with the liability's previous carrying amount (excluding the effect of previous discount rate changes) at the beginning of the current reporting period and recognize a cumulative catch-up adjustment in current-period earnings. The catch-up adjustment will be presented separately from the current reporting period's benefit expense in the insurer's statement of operations. The insurer also will compute the current reporting period's benefit expense by using the revised net premium ratio that was computed as of the beginning of the reporting period. Experience adjustments will be recognized in the same reporting period in which they arise. Thereafter, the insurer will measure the liability for future policy benefits by using the revised net premium ratio (until the next assumption update).

If the revised cash flow assumptions indicate that the present value of future benefits and expenses will exceed the present value of future gross premiums, the insurer must recognize an immediate charge to net income for the period so that net premiums will equal gross premiums (i.e., the net premium ratio cannot exceed 100 percent). Because the new accounting model requires periodic assumption updates and requires the shortfall to be recorded when the net premiums exceed the gross premiums, the premium deficiency test required under current U.S. GAAP is eliminated for nonparticipating traditional and limited-payment insurance contracts after adoption of the ASU.

If the insurer recognizes a loss because the net premium ratio exceeds 100 percent, it must continue to accrue the liability for future policy benefits in subsequent periods (i.e., until assumptions are subsequently updated) with net premiums set equal to gross premiums. The balance of the liability for future policy benefits for a contract group can never be less than zero.

[3] If applicable, this amount would be reduced by the liability carryover basis.

For updates to the discount rate, the insurer recognizes any changes in the liability for future policy benefits arising from changes in the discount rate as an adjustment to OCI at the time the discount rate is updated (i.e., in the current period). However, the liability's interest accretion rate will remain the discount rate that was in effect at contract issuance.

For long-duration contracts other than traditional and limited-payment contracts (e.g., participating or universal life–type contracts), the ASU retains loss recognition testing (although DAC is not considered in the analysis) as well as the concept of accruing an additional liability for contracts that result in profits followed by losses (see discussion in next section). Moreover, the present value of future profits associated with acquired insurance and reinsurance contracts will remain subject to premium deficiency testing.

Contracts or Contract Features That Provide for Potential Benefits in Addition to the Account Balance

The ASU amends the accounting model for certain universal life–type contracts or contracts that contain features that could provide nontraditional contract benefits in addition to the insured's account balance. An insurer that writes such contracts first will assess whether those benefit features meet the definition of market risk benefits (a new concept under the ASU); if so, it will apply the market risk benefit guidance described below. If the benefit features do not satisfy the market risk benefit criteria, the insurer next will assess whether those features should be accounted for as derivatives or embedded derivatives under ASC 815.

If the benefits do not meet the criteria to be accounted for as derivatives or embedded derivatives, the insurer will then determine whether the potential additional benefits are payable only upon annuitization (e.g., annuity purchase guarantees or two-tier annuities). If so, the insurer will record an additional liability for the contract feature if the present value of the expected annuitization payments on the expected annuitization date exceeds the expected account balance on the expected annuitization date. Further, the insurer will assess whether "amounts assessed against the contract holder each period for the insurance benefit feature . . . are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function." If so, in addition to the account balance, the insurer will record an additional liability for the death or other insurance benefits.

The accounting models for annuitization and death or other insurance benefits generally have not changed; however, certain aspects of those models have been revised to align with other aspects of the ASU. Those changes are discussed below.

Market Risk Benefits

The ASU establishes new accounting requirements for certain market risk benefits. Examples include features commonly known as GMxBs, or guaranteed minimum benefit features (e.g., guaranteed minimum death benefits or guaranteed minimum income benefits), but market risk benefits may include other contract features.

Under current U.S. GAAP, an insurer may not account for such features in the same way even though the features share some common characteristics. Some features may be accounted for as embedded derivatives (typically, guaranteed minimum withdrawal or accumulation benefits (GMWBs or GMABs)), while others (e.g., guaranteed minimum income or death benefits (GMIBs or GMDBs)) may be accounted for as insurance under ASC 944. This disparate accounting treatment has made it challenging for insurers to hedge exposures related to GMIBs and GMDBs.

Under the ASU, insurers will apply the new market risk benefit accounting model to contracts or contract features contained in both separate account and general account nontraditional products. Under that accounting model, a "contract or contract feature that both provides protection to the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk shall be recognized as a market risk benefit."

The ASU further states that "[i]n evaluating whether a contract or contract feature meets the conditions [of a market risk benefit], an insurance entity shall consider that:

> (a) Protection refers to the transfer of a loss in, or shortfall (that is, the difference between the account balance and the benefit amount) of, the contract holder's account balance[4] from the contract holder to the insurance entity, with such transfer exposing the insurance entity to capital market risk that would otherwise have been borne by the contract holder (or beneficiary).
>
> (b) Protection does not include the death benefit component of a life insurance contract (that is, the difference between the account balance and the death benefit amount). This condition does not apply to an investment contract or an annuity contract (including an annuity contract classified as an insurance contract).
>
> (c) A nominal risk . . . is a risk of insignificant amount or a risk that has a remote probability of occurring. A market risk benefit is presumed to expose the insurance entity to other-than-nominal capital market risk if the benefit would vary more than an insignificant amount in response to capital market volatility."

When a long-duration contract has multiple market risk benefits, an insurer must bundle those benefits together into a single, compound market risk benefit.

Under the ASU, an insurer must also:

- Initially measure a market risk benefit at fair value.[5] The insurer will recognize subsequent changes in fair value in current earnings; however, any changes in the fair value of a market risk benefit in a liability position that are attributable to changes in the instrument-specific credit risk will be recognized in OCI.
- Separately present (1) market risk benefits in the statement of financial position and (2) the change in fair value related to market risk benefits in net income (other than that portion of the fair value change attributable to changes in the instrument-specific credit risk, which would be reported in OCI).

Under ASC 815-10-15-13(c) as amended by the ASU, qualifying market risk benefits are excluded from the scope of ASC 815-10, which addresses derivative accounting.

Contracts With Annuitization or Death or Other Insurance Benefits

As noted above, the ASU modifies certain aspects of how the additional liability for annuitization or death or other insurance benefits is computed to align with other changes made by the ASU. Under the ASU:

- For death or other insurance benefits, the amounts in the numerator and denominator of the benefit ratio used to compute the additional liability are discounted at the contract rate, defined as either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining benefit period. In subsequent revisions to the benefit ratio computation, an insurer will need to consistently apply its chosen method of computing the present value of the revised estimates.

[4] ASC 944-40-25-40, as amended, clarifies that "[f]or reinsurers, the reference to the account balance [in the market risk benefit guidance] refers to the underlying contract between the direct writer and the contract holder."

[5] ASC 944-40-30-19C further states that "[t]otal attributed fees used to calculate the fair value of the market risk benefit shall not be negative or exceed total contract fees and assessments collectible from the contract holder."

- For annuitization benefits, an insurer computes the numerator of the benefit ratio used to determine the additional liability as the "present value of expected annuitization payments to be made and related incremental claim adjustment expenses discounted at an upper-medium grade (low-credit-risk) fixed-income instrument yield applicable to the payout phase of the contract, minus the expected accrued account balance at the expected annuitization date (the excess payments). The excess of the present value payments to be made during the payout phase of the contract over the expected accrued account balance at the expected annuitization date shall be discounted at the contract rate." To calculate the denominator of the benefit ratio, the insurer would also discount the present value of total expected assessments during the accumulation phase of the contract by using the contract rate.
- In accordance with the guidance on accounting for annuitization and death or other insurance benefits, a reinsurer or issuer of a contract's insurance benefit features must "calculate a liability for the portion of premiums collected each period that represents compensation . . . for benefits that are assessed in a manner that is expected to result in current profits and future losses from the insurance benefit function."

For both (1) annuitization benefits and (2) death or other insurance benefits, an insurer will present the gain or loss that results from application of the revised benefit ratio to remeasure the related liability as of the beginning of the current reporting period as a separate component of total benefit expense in its statement of operations (either parenthetically or as a separate line). The components of benefit expense related to the gains or losses on liability remeasurement related to traditional and limited-payment contacts, death or other insurance benefits, and annuitization benefits may be reported together.

Deferred Acquisition Costs

Although the ASU does not change the types of acquisition costs that qualify for capitalization, it does change the manner and timing of DAC amortization for all long-duration contracts, including participating contracts. These amendments also apply to other capitalized balances (e.g., unearned revenue liability for universal life–type contracts) that were previously amortized in proportion to premiums, gross profits, or gross margins.

Under the existing guidance in ASC 944, insurers may use different methods to amortize DAC, depending on the product type. The ASU establishes a principle that DAC (and the other capitalized costs referred to above) should be amortized to expense "on a constant level basis — either on an individual contract basis or on a grouped contract basis — over the expected term of the related contract(s)."[6] No interest would accrue on the balance of unamortized DAC.

The ASU does not specify the level of aggregation at which an insurer should apply DAC accounting; however, it does state that an entity that groups contracts should use groupings that are consistent with those used to determine the liability for future policy benefits (or any other related balance) related to the corresponding insurance contracts. To satisfy the amortization principle established by the ASU, an insurer should amortize DAC associated with an individual contract on a straight-line basis. For a contract group, the insurer would amortize DAC "on a constant-level basis that approximates straight-line amortization on an individual contract basis." The selected amortization method should be applied consistently over the expected term of the contract or contract group.

An insurer will amortize DAC by using assumptions that are consistent with those used to determine the liability for future policy benefits or related balances for the associated contracts (e.g., terminations). The insurer will also (1) reduce the DAC balance to reflect actual

[6] When an insurance contract has accumulation and payout phases, the insurer would treat the payout phase as a separate contract. Accordingly, the insurer would amortize DAC related to the contract over the duration of the accumulation phase.

experience that exceeds expected experience (e.g., an unexpected contract termination) and (2) prospectively treat the effects of any changes in future estimates (e.g., a change in lapse or mortality assumptions) as a revision of future amortization amounts. However, changes in a contract's profitability will not trigger an adjustment to DAC. Moreover, when the insurer determines amortization expenses for DAC (or balances amortized on a basis consistent with the amortization of DAC), it will ignore any anticipated future renewal expenses until such expenses are actually incurred and capitalized (i.e., only upon successful contract renewal).

Insurers that write certain investment contracts with specified features will continue to amortize DAC for those contracts by "using an accounting method that recognizes costs as expenses at a constant rate applied to net policy liabilities and that is consistent with the interest method."

Under the ASU, an insurer does not assess DAC for impairment; however, other balances that are amortized on a basis consistent with the amortization of DAC will still be subject to impairment testing.

Revenue Recognition for Limited-Payment Contracts

Under ASC 944, insurers defer the amount of any gross premium received over net premiums for limited-payment contracts. An insurer recognizes these amounts deferred (the "deferred profit liability" or DPL) in income either (1) in a constant relationship with the discounted amount of insurance in force (for life insurance contracts) or (2) with the amount of expected future benefit payments (for annuity contracts) and accrues interest on the unamortized balance. Under the ASU, insurers will:

- Use an upper-medium-grade fixed-income instrument yield as the discount rate.
- Accrete interest by using the original discount rate at the date of contract issuance.
- Review and, if necessary, update the cash flow assumptions used to determine changes in the DPL annually, at the same time each year, or more frequently if warranted by actual experience or other evidence.
- Recalculate the DPL on the basis of (1) actual historical experience and (2) the updated future cash flow assumptions (i.e., on a retrospective basis) as of the contract issue date.
- Recompute the unamortized basis of the DPL as of the beginning of the current reporting period by determining the amount of amortization that would have been recognized by applying the selected amortization method from the contract issue date up to the beginning of the current period.
- Compare the recomputed amount of the DPL with its current carrying amount as of the beginning of the reporting period and recognize a cumulative catch-up adjustment in current-period net income. This adjustment must be presented separately in net income (either as a separate line in the statement of operations or parenthetically); however, the adjustment may be combined with "catch-up" liability remeasurement amounts reported for other liabilities (such as for annuitization or death or other insurance benefits).

Disclosures

The ASU enhances the disclosures that an insurer must provide in both interim and annual financial statements to allow "users to understand the amount, timing, and uncertainty of future cash flows arising from the [insurance] liabilities." An insurer should aggregate or disaggregate the disclosures "so that useful information is not obscured by the inclusion of a large amount of insignificant detail or by the aggregation of items that have

significantly different characteristics."[7] Disclosures need not be provided for insignificant categories; however, amounts for those insignificant categories still must be included in the reconciliations. See the appendix for a summary of significant new disclosure requirements under the ASU.

Effective Date and Transition

Effective Date

The ASU is effective for PBEs for fiscal years beginning after December 15, 2020, including interim periods therein. Other entities must adopt the ASU in fiscal years beginning after December 15, 2021, and in interim periods within fiscal years beginning after December 15, 2022.

All entities may early adopt the ASU.

Transition

The ASU provides account-specific transition guidance, as summarized below.

Liability for Future Policy Benefits Related to Nonparticipating Traditional and Limited-Payment Insurance Contracts and DAC

Upon adoption under the ASU's modified retrospective approach, an insurer will apply the amendments related to the accounting for the liability for future policy benefits and DAC (including balances amortized on a basis consistent with the amortization of DAC) to all contracts in force on the transition date (i.e., at the beginning of the earliest period presented) by using the future policy benefits' and DAC's carrying amounts on the transition date and updated future cash flow assumptions, as adjusted to remove any related amounts in accumulated other comprehensive income (AOCI).

When determining the liability for future policy benefits on the transition date, the insurer will:

- Calculate a new net premium ratio by comparing its estimate of (1) the present value of future benefits and expenses less the transition date carrying amount with (2) the present value of future gross premiums.
- Retain the discount rate assumptions used immediately before adoption to calculate the new net premium ratio and interest accretion.
- "Adjust the opening balance of retained earnings only to the extent that net premiums exceed gross premiums."
- For purposes of the statement of financial position, remeasure the liability for future policy benefits by using the current upper-medium-grade fixed-income instrument yield as the discount rate and adjust opening AOCI on the transition date accordingly.
- Use the transition date as the revised contract issue date when computing subsequent adjustments (but not as a basis for contract grouping). Further, in the computation of the liability for future policy benefits, contracts in force at the transition date must be aggregated into quarterly or annual groups on the basis of original contract issue date (the acquisition date is considered the original contract issue date for acquired contracts).

As a result of the insurer's application of this adoption method, if the net premium ratio on the transition date is below 100 percent for a group of contracts, the difference between the

[7] The ASU's implementation guidance (1) discusses additional factors an insurer should consider when it determines the appropriate level of disaggregation for disclosures and (2) provides examples of aggregation categories that may be appropriate in certain circumstances (e.g., disaggregation by type of coverage or geography). The implementation guidance also notes that an insurer should not aggregate amounts from different reportable segments in its disclosures.

locked-in net premium ratio used before adoption of the ASU and the recomputed transition date net premium ratio will be reflected in earnings in future periods (i.e., there will not be an adjustment to retained earnings at transition). However, as noted below, for a contract group in which the revised estimate of expected net premiums exceeds the revised estimate of expected gross premiums, an additional liability will be recorded at transition.

In circumstances in which the revised estimate of expected net premiums exceeds the revised estimate of expected gross premiums on the transition date, the insurer will (1) "set net premiums equal to gross premiums"; (2) "increase the liability for future policy benefits and, for limited-payment contracts, reduce the deferred profit liability balance to zero"; and (3) "recognize a corresponding adjustment to the opening balance of retained earnings."

For limited-payment contracts, any change in the DPL resulting from transition adjustments will be offset by a corresponding adjustment to the liability for future policy benefits (except in those circumstances described in the previous paragraph).

Alternatively, an insurer may elect to apply these amendments on a full retrospective basis by using actual historical experience (and not estimates of such experience) as of contract inception (or contract acquisition date, if applicable) and recording a cumulative catch-up adjustment to opening retained earnings (or opening AOCI, as applicable). The ASU requires an insurer to apply the same transition method to both its DAC (including balances amortized on a basis consistent with the amortization of DAC) and its liability for future policy benefits. Further, the insurer must (1) make its transition election "at the same contract issue-year level for both the liability for future policy benefits and [DAC] . . . for that contract issue year and all subsequent contract issue years" and (2) apply that election entity-wide (i.e., to all products and contracts). An insurer must apply the modified retrospective method (described above) to contracts issued (or acquired) "before the earliest issue-year level elected for retrospective application."

Market Risk Benefits

On the transition date, the insurer will apply the market risk benefit amendments retrospectively to all prior periods. To do so, the insurer must "maximize the use of relevant observable information as of contract inception and minimize the use of unobservable information in determining the market risk benefits balance at the beginning of the earliest period presented" (i.e., the transition date). The insurer is allowed to use hindsight to determine the measurement assumptions needed for the retrospective application in a prior period if those assumptions "are unobservable or otherwise unavailable and cannot be independently substantiated."

The insurer's retrospective application will result in a transition adjustment to opening retained earnings in the amount of the difference between the fair value and carrying value of the market risk benefits on the transition date, reduced by "[t]he cumulative effect of changes in the instrument-specific credit risk between [the] contract issue date and [the] transition date," which will be recognized in AOCI.

Transition Disclosures

In the year of adoption, an entity must disclose information about the following:

- Liability for future policy benefits and DAC (including balances amortized on a basis consistent with the amortization of DAC):
    - "A disaggregated tabular rollforward of the ending balance of the reporting period before the transition date to the opening balance" on the transition date (i.e., "the beginning of the earliest period presented") that is consistent with the rollforward disclosures required for interim and annual periods. Insurers that elect

full retrospective application must also "disaggregate the rollforward between the effects of the retrospective application and the modified retrospective application."

  - "Qualitative and quantitative information about transition adjustments related to:

    i. The opening balance of retained earnings

    ii. Accumulated other comprehensive income

    iii. Net premiums exceeding gross premiums

    iv. The establishment of a premium deficiency as required [by the guidance on premium deficiency and loss recognition]."

- Market risk benefits:
  - "A disaggregated tabular rollforward of the ending balance of the reporting period before the transition date to the opening balance" on the transition date that is consistent with the rollforward disclosures required for interim and annual periods.
  - "Qualitative and quantitative information about transition adjustments related to the opening balance of retained earnings and [AOCI]."

Comparison With IFRS Standards

Under IFRS® Standards, certain aspects of the accounting and disclosure model for insurance contracts in IFRS 17[8] differ significantly from those in the ASU. Moreover, the IASB's model, unlike the ASU's entity-based model, is contract-based and applies to any entity that writes a contract that meets the definition of "insurance" under IFRS 17 (with some exceptions). Under IFRS 17, a single accounting model applies to all insurance contracts (although a practical expedient, the premium allocation approach, may be used for certain contracts, generally short-duration contracts, that meet specified criteria). By contrast, the ASU affects only the accounting for certain long-duration contracts; therefore, U.S. GAAP will continue to have different accounting models for short-duration and long-duration contracts after adoption of the ASU.

Additional information about IFRS 17 is available on Deloitte's IASPlus Web site.

Contacts

If you have questions about this publication, please contact the following Deloitte industry professionals:

Rick Sojkowski
Partner
Deloitte & Touche LLP
+1 860 725 3094
rsojkowski@deloitte.com

Bala Bellur
Managing Director
Deloitte & Touche LLP
+1 813 769 3210
bbellur@deloitte.com

Zach Gietl
Manager
Deloitte & Touche LLP
+1 314 641 4361
zagietl@deloitte.com

[8] IFRS 17, *Insurance Contracts*.

Appendix — Key Disclosures Required by ASU 2018-12

The following table summarizes the key disclosures under ASU 2018-12:

Account	Disclosure Format	Separate Disclosures Required
Liability for future policy benefits related to traditional and limited-payment contracts; additional liability for annuitization, death, or other insurance benefits	Year-to-date disaggregated tabular rollforward of the beginning to ending balance and other quantitative and qualitative disclosures (annual and interim periods)	Amounts must be presented gross of any related reinsurance recoverable. For the liability for future policy benefits for traditional and limited-payment contracts, the disaggregated tabular rollforward will present separately the (1) expected future net premiums and (2) expected future benefits. The rollforward or accompanying information also will present information about (1) the undiscounted and discounted ending balances of expected future gross premiums and expected future benefits and expenses (for traditional and limited-payment contracts); (2) actual mortality, morbidity, and lapse experience compared with what was expected for the period; (3) the amount of revenue and interest recognized in the statement of operations; (4) the amount of any related reinsurance recoverable; (5) the weighted-average duration of the liability; and (6) the weighted-average interest rate, including a description of how that rate was determined, and information about any adjustments that the insurer made to observable market information. The disaggregated rollforwards will be reconciled to (1) the aggregate ending carrying amounts of the liability for future policy benefits and the additional liability in the statement of financial position and (2) the total revenue and interest recognized in the statement of operations. For traditional and limited-payment contracts, an insurer also must provide qualitative and quantitative information about adverse development that triggered an immediate charge to net income in the current period because net premiums exceeded gross premiums. For annual periods, and as may be required by general interim reporting guidance, an insurer must provide information about the significant inputs, judgments, assumptions, and methods used to measure the liabilities, any changes therein and the effects of those changes on the liability measurement.
Liability for policyholders' account balances (excluding separate accounts)	Year-to-date disaggregated tabular rollforward of the beginning to ending balance (annual and interim periods)	For each disaggregated rollforward, an insurer will separately disclose the weighted-average crediting rate, guaranteed benefit amounts in excess of current account balances, and cash surrender value. In addition, the insurer will reconcile the disaggregated rollforwards to the aggregate ending carrying amount of the liability in the statement of financial position. Insurers also will provide a table showing policyholders' account balances by the range of guaranteed minimum crediting rates and "the related range of the difference between rates being credited to policyholders and the respective guaranteed minimums."

(Table continued)

Account	Disclosure Format	Separate Disclosures Required
Market risk benefits	Year-to-date disaggregated tabular rollforward of the beginning to ending balance and other information (annual and interim periods)	In addition to providing disaggregated tabular rollforwards, an insurer will disclose "the guaranteed benefit amounts in excess of the current account balances" and the "weighted-average attained age of contract holders." The insurer also will reconcile the disaggregated rollforwards to the aggregate ending carrying amount in the statement of financial position. The reconciliations must disaggregate asset and liability positions. Further, for annual periods, and as may be required by general interim reporting guidance, an insurer will provide information about (1) significant inputs, judgments, assumptions, and methods used to measure the market risk benefits and (2) changes therein and the effects of such changes on the measurement of market risk benefits.
Unamortized DAC (including balances amortized on a basis consistent with the amortization of DAC, to the extent such balances are not included in other rollforward disclosures) and sales inducements	Year-to-date disaggregated tabular rollforward of the beginning to ending balance and other information (annual and interim periods)	The tabular rollforward(s) will be disaggregated "in a manner that is consistent with the disaggregation of the related liability disclosures." An insurer also must reconcile the rollforwards to the aggregate ending carrying amounts in the statement of financial position. For annual periods, and as may be required by general interim reporting guidance, an insurer also will disclose the nature of deferred costs and sales inducements and provide "information about the inputs, judgments, assumptions, and methods used to determine [the] amortization amounts" for the period and any changes therein.
Premium deficiency testing (for contracts other than nonparticipating traditional and limited-payment contracts)	Information about liability established as a result of premium deficiency and loss recognition testing	For annual periods, and as may be required by general interim reporting guidance, an insurer must (1) disclose the amount of a liability established as a result of premium deficiency and loss recognition testing and (2) describe the factors that led the insurer to recognize the liability. The insurer also must disclose (1) information about its methods for performing the premium deficiency testing, (2) whether it considered anticipated investment income in performing its computation, and, if so, (3) its related assumption. Further, the ASU requires an insurer with a closed block to provide additional information in its general description of the closed block. In addition to providing an indication of the insurer's continuing responsibility to support the payment of contractual benefits, the insurer will need to discuss "the results of premium sufficiency or deficiency determined in accordance with [the premium deficiency and loss recognition guidance for long-duration contracts]."
Separate accounts	Year-to-date disaggregated tabular rollforward of the beginning to ending balance and other information (annual and interim periods)	In addition to providing the disaggregated tabular rollforwards, the insurer will disclose the related cash surrender values and reconcile the rollforwards to the aggregated ending carrying amount of the separate account liability in the statement of financial position. The insurer also will continue to describe "[t]he general nature of the contracts reported in separate accounts, including the extent and terms of minimum guarantees (including market risk benefits)" and the basis of presentation for (1) "separate account assets and liabilities" and (2) "related separate account activity." Further, the insurer will continue to provide information about the "aggregate fair value of assets, by major investment asset category, supporting separate accounts as of each date for which a statement of financial position is presented" and the amount of gains and losses generated on assets transferred to separate accounts for the periods presented.

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