

ASU 2018-12 Long Duration Standard – Implications and Peer Review for U.S. Life Insurers

INDUSTRY PEER REVIEW

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ASU 2018-12 Long Duration Standard

ASU 2018-12 Financial Services - Insurance

Targeted Improvements to the Accounting for Long-Duration Contracts

Overview

In August 2018, the FASB issued Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944) — Targeted Improvements to the Accounting for Long-Duration Contracts ("ASU 2018-12").

The FASB's objective in issuing ASU 2018-12 was to improve, simplify and enhance the accounting and disclosure requirements for long-duration contracts. Both conceptually and operationally, it poses the most significant change to accounting for insurance products since the FASB issued FAS 97 back in Dec. 1987. The amendments prescribed by ASU 2018-12 will significantly impact how insurers account for long-duration contracts including term life insurance, traditional life, life-contingent immediate annuities, and annuities with living benefit features as well as certain voluntary accident and health insurance. They will change existing income recognition, reserve measurement, presentation, and disclosure requirements. Going forward, under ASU 2018-12 these will be applied on a more uniform consistent basis across different product types as opposed to existing GAAP that mandates some such as long-term care be reported using original historic "locked-in" pricing assumptions whereas others such as variable annuities are valued based on current experience and market conditions.

The new guidance improves the timeliness of recognizing changes in the liability for future policy benefits for traditional long-duration contracts by requiring that underlying cash flow assumptions be reviewed and updated at least annually. The change in the reserve estimate as a result of updating cash flow assumptions will be recognized in net income. The rate used to discount future cash flows will be based on an upper-medium grade fixed income investment yield and any change in the reserve estimate as a result of updating the discount rate assumption will be recognized in OCI. ASU 2018-12 also creates a new category of *market risk benefits* (MRBs) (i.e., features that protect the contract holder from more than nominal capital market risk) for certain guarantees associated. These will be required to be measured at fair value with changes recognized in net income. In addition, the new guidance simplifies the amortization of deferred policy acquisition costs (DAC) and deferred sales inducements (DSI) and other similar capitalized balances (i.e., unearned revenue reserves) by requiring such costs to be amortized on a constant-level basis that approximates the straight-line method. Lastly, the new guidance increases and enhances the disclosures related to long-duration insurance contracts.

ASU 2018-12 is effective for public companies with fiscal years beginning after December 15, 2020 and for private companies one year later. It will also require the restatement of prior periods presented. For most public companies this means the ASU's transition date (the re-measurement date) was January 1, 2019; i.e. it will be applied retrospectively to January 1, 2019. Early adoption is permitted.

What insurers are saying about the impact of ASU 2018-12

In a review of the year-end 2018 financial statements of 35 insurers, including five mutual and three foreign-owned U.S. insurers that publicly provide GAAP financial statements, 18 companies expect ASU 2018-12 to have a significant/material/pervasive impact on their consolidated financial statements. The other 17 reported they were still assessing its potential impact. Only one company indicated they planned early adoption of the standard.

Over the next year, insurers will need to make some key decisions including: 1) use of modified retrospective vs. full retrospective for traditional contracts; level policy aggregation; 2) approach for reinsurance; DAC/DSI/Value of Business Acquired (VOBA) amortization approach (e.g. seriatim vs. cohort); and 3) sequencing of MRBs going forward.

For those that indicated they anticipated the impact to be significant, key areas identified included:

- transitioning from an original investment-based discount rate to one based on an upper-medium grade fixed income investment yield;
- updates to mortality/morbidity/experience assumptions on products for which these had previously been locked in at issuance;
- requirement to measure all variable annuity guarantees at fair value which may also lead to changes in variable annuity exposure risk management strategies;
- material decrease in stockholders' equity which in turn could have a material adverse effect on financial leverage ratios and could consequently adversely impact financial strength ratings and the ability to incur new indebtedness or refinance existing indebtedness;
- increased market sensitivity of financial statements and operating results may lead some insurers to consider significant changes to their product offerings and business strategy;
- significant changes to accounting and risk management systems that may require additional resources, resulting in significant incremental costs to implement the proposals.

Insurers that expect impact of ASU 2018-12 to be significant

Insurers that anticipate the impact will be significant included: Aflac, AIG, Allstate, Brighthouse, Equitable Holdings, Farm Bureau Financial Group, General Electric Genworth, Jackson National, Lincoln National, MetLife, National Life Group, New York Life, Principal Financial, Primerica, Prudential, RGA, and Voya.

Insurers still evaluating impact of ASU 2018-12

Insurers still evaluating the impact of ASU 2018-12 included: American Equity Life, American Financial Group, Ameriprise, Assurant, Athene, CNO Financial, Fidelity & Guaranty, Hartford Insurance Group, Horace Mann, Nationwide, Pacific Life, Protective Life, Securian, Symetra, Talcott, Torchmark and Unum.

Objectives and Five Key Areas of Change

The FASB's objective with ASU 2018-12 was to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. Although arguably less onerous for insurers to implement than IFRS 17 required by the International Accounting Standards Board (IASB) for non-U.S. insurers, adoption of ASU 2018-12 will still pose a significant challenge for U.S. insurers.

From disclosures within 2018 10-k reports and GAAP financial statements it was clear that while the new standard does not change the underlying ultimate economics of any insurance contract, it will potentially have a material impact on balance sheets and earnings emergence patterns and could significantly increase quarter-to-quarter volatility. Based on discussions with multiple insurers the impact of ASU 2018-12 may be far more extensive with regard to the range of products impacted and costlier to implement than originally estimated. Given this, it is possible the FASB could delay implementation based on the board's assessment of the challenges it will pose for insurers.

Specifically, ASU 2018-12 contains five key changes:

1. **Assumption updates and cash flow testing** – Replaces current GAAP which for certain products utilizes assumptions set at policy issuance, i.e. locked in, until such time as the historical assumptions result in reserves that are deficient when compared to reserves computed using current assumptions. Under current GAAP, premium deficiency reserves are recognized in the amount of the deficiency, if any, computed using current assumptions. ASU 2018-12 will require companies that issue long-duration insurance contracts to update assumptions used in the calculation of future policy benefits, including mortality and persistency, at least annually. If there is a change, ASU 2018-12 requires recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes) in the income statement;
2. **Current discount rate** – Must now be updated at the end of each reporting period, typically quarterly, using an upper medium grade (low-credit risk) fixed income instrument yield, i.e. an "A" rated corporate bond that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income. Although this could result in significant volatility in reported benefit reserves, this should be offset to some extent by the mark to market change of investments classified as Available for Sale (AFS) supporting policy liabilities.
3. **Market risk benefits (MRBs)** – A new term for certain contracts or features that provide for potential benefits in addition to the account balance which exposes the insurer to other than nominal market risk. MRBs associated with deposit (or account balance) contracts will be recognized at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
4. **DAC and DSI amortization** – Simplifies the amortization of DAC and DSI to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations. It will be independent of profitability and no longer require an impairment test.

5. **Enhanced disclosures** – These must include quantitative information in roll-forwards for balance sheet accounts, as well as information about the significant inputs, judgments, assumptions and methods used in measurement in order to provide better transparency into the exposure of insurance entities and the drivers of their results.

SUMMARY OF SIGNIFICANT ASPECTS OF ASU 2018-12

	FASB's Intent	Products Affected	Targeted Improvements
Cash flow assumptions used to measure liability for future policy benefits	Improve the timeliness of recognition of economic impact of changes in actuarial assumptions	Non-par traditional long duration limited pay contracts including term life insurance, long-term care, structured settlements, immediate annuities and pension closeouts	<ul style="list-style-type: none"> • Cash flow and actuarial experience (including morbidity, mortality and persistency) to be updated on a cumulative catch-up basis (i.e. retrospective); recognized through earnings. • Eliminates loss recognition testing and provision for adverse deviation
Discount rate used to measure liability for future policy benefits	Modify the discount rate used to reflect current markets	Same as above	<ul style="list-style-type: none"> • Discount rate assumption to be updated each period using upper-medium fixed income bond yield; impact recognized through OCI.
Market Risk Benefits (MRBs)	<p>Simplify and improve accounting for certain types of MRBs that in addition to the account balance expose an insurer to other than nominal market risk</p> <p>Introduces new MRB classification</p>	Deposit products with MRB features such as Variable annuities (VAs) and Fixed indexed annuities (FIAs))	<ul style="list-style-type: none"> • Requires MRB be measured at fair value with changes recognized in income (except for valuation changes resulting from changes to an insurers own credit spread) • Includes all living benefit guarantees on VAs and FIAs including accumulation, withdrawal and income benefits
Deferred Acquisition Costs (DAC) and Deferred Sales Inducements (DSI)	Simplify the methodology used to amortize DAC/DSI required under FAS 97	All products except investment contracts	<ul style="list-style-type: none"> • DAC/DSI amortization will now be on a constant/straight line basis over the life of the contract • Eliminates impairment testing
Enhanced Disclosures	Improve the effectiveness and transparency of disclosures in financial statements and allow for better comparability between companies	All long duration products	<ul style="list-style-type: none"> • Will require significant level of new granular disclosures • Addition of desegregated reserve roll-forwards • Mandates qualitative disclosures about significant inputs, judgements and assumptions

With regards to the liability for future policy benefits and DAC, the guidance applies to contracts in force as of the beginning of the earliest period presented and may be applied retrospectively. With regards to

MRBs, the guidance is to be applied retrospectively at the beginning of the earliest period presented. The effect of updating measurement assumptions other than the discount rate are required to be determined on a retrospective basis and reported in net income.

For public business entities, the guidance is effective for annual reporting periods beginning after December 15, 2020, including interim periods within those years, thereby requiring restatement of prior periods presented. While for most public companies this means the ASU will become effective January 1, 2021, the transition date (the re-measurement date) is January 1, 2019; i.e. it will be applied retrospectively to January 1, 2019. Early adoption of ASU 2018-12 is permitted although to date no insurer appears to have done so.

Detailed Look at ASU 2018-12’s Expected Impact

ASU 2018-12 will be applied to the liability for future policy benefits for traditional and limited-payment contracts and DAC and DSI on a modified retrospective basis; that is, to contracts in force as of the beginning of the earliest period presented based on their existing carrying amounts. Under the modified retrospective approach, an entity would continue to use the existing locked-in investment yield interest rate assumption to calculate the net premium ratio for contracts in force at the transition date. However, for balance sheet re-measurement purposes, the current upper-medium grade fixed-income corporate instrument yield would be used with the difference in values recognized through accumulated other comprehensive income at transition and subsequently through other comprehensive income.

For MRBs, retrospective application is required; with the ability to use hindsight to measure fair value components to the extent assumptions in a prior period are unobservable or otherwise unavailable. The ASU changes will also result in the elimination of the provision for risk of adverse deviation and premium deficiency (or loss recognition) testing.

Outlined below are the five most significant aspects of ASU 2018-12 that will affect insurers financial statements going forward:

1. Cash flow assumptions

Requires an entity to review, and if necessary, update the cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products. Cash flow assumptions will be required to be updated for both changes in future assumptions and actual experience, at least annually at the same time each year, or more frequently if actual experience indicates a change is required. Changes in cash flow assumptions (except the discount rate) will be recorded in net income (loss) using a retrospective approach with a cumulative catch-up adjustment by recalculating the net premium ratio (NPR), which will be capped at 100%, using actual historical and updated future cash flow assumptions.

$$\text{Net Premium Ratio (NPR)} = \frac{\text{PV of Insurance Contract Benefits and Expenses}}{\text{PV of Gross Premiums}}$$

The effect of updating assumptions will be measured on a retrospective catch-up basis and presented separately from the ongoing policyholder benefit expense in the statement of operations in the period the update is made. This new unlocking process will be required for products including term and whole life insurance, DI and LTC insurance and immediate annuities with a life contingent feature.

Under the current standard, liabilities for future policy benefits for long-duration products are established based on assumptions set at the issue date which are not changed unless there is a premium deficiency. Under the new standard, mortality, morbidity, persistency and expense assumptions must be reviewed for potential changes at least annually. For these assumption changes, the liability for future policy benefits is recomputed and a cumulative catch-up adjustment is recorded in current year income. Insurers will also no longer be permitted to include a provision for adverse deviation in calculations of the liability for future policy benefits.

Since assumptions are updated regularly, there is no longer a need for premium deficiency testing. The current premium deficiency test is being replaced with a net premium ratio (NPR) cap of 100%. If the net premium ratio (i.e. the ratio of the present value of total expected benefits and related expenses to the present value of total expected premiums) exceeds 100%, insurers are required to recognize a loss in the statement of operations in the period.

Contracts from different issue years will no longer be permitted to be grouped/aggregated together to determine if they are in a loss position.

An entity may choose one of two adoption methods for the liability for future policy benefits:

- (1) Modified retrospective transition method whereby the entity will apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or
- (2) Full retrospective transition method.

2. Discount rate assumption

The discount rate used to measure the liability for future policy benefits will be standardized. The current requirement to use a discount rate reflecting expected investment yields at a contract's issue date will change to an upper-medium grade (low credit risk) fixed income corporate instrument yield (generally interpreted as an "A" rating) reflecting the duration characteristics of the liability. Entities will be required to update the discount rate at each reporting date with the effect of discount rate changes on the liability recorded in other comprehensive income (OCI).

An entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet re-measurement purposes, the liability for future policy benefits will be re-measured

using current discount rates as of the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.

Upon adoption, under either transition method, there will be an adjustment to AOCI as a result of re-measuring in-force contract liabilities using current upper medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between the discount rate locked-in at contract inception and the current discount rates at transition.

3. Market Risk Benefits

The guidance establishes a significant new category of benefit features called market risk benefits (MRBs) that protect the contract holder from other-than-nominal capital market risk and expose the insurer to that risk. The ASU requires an entity measure all MRBs associated with deposit or account balance contracts (e.g. living benefit and death benefit guarantees on fixed indexed and variable annuities) at fair value. The portion of the periodic change in fair value attributable to a change in the instrument-specific credit risk of MRBs in a liability position will be recorded in OCI with the remainder recognized in net income. For example, variable annuity guarantees will be considered MRBs and measured at fair value, whereas today a significant amount of variable annuity guarantees are carried as insurance. Certain traditional universal life and annuity guarantees such as minimum crediting rate guarantees and variable life insurance benefits are not considered MRBs.

An entity will be required to apply a retrospective transition method which will include a cumulative-effect adjustment on the balance sheet as of the earliest period presented.

4. Amortization of DAC/DSI and other balances

Requires DAC and other balances, such as unearned revenue reserves and DSI relating to all long-duration contracts and most investment contracts to be amortized on a constant level / straight line basis over the expected term of the related contract, independent of expected profitability. Under existing GAAP these are amortized in proportion to projected premiums or gross margins.

DAC will also not be subject to loss recognition/impairment testing but will be reduced when actual experience exceeds expected experience (i.e. as a result of unexpected contract terminations).

Under the new ASU, interest will not accrue to the deferred balance for DAC and DSI. Adjustments to DAC and DSI for the change in amortization that would have occurred due to unrealized gains and losses if the fixed maturity securities supporting the underlying policy liabilities had been sold at their aggregate fair value and the proceeds reinvested at current yields (commonly referred to as "shadow adjustments") will no longer be required.

An entity may apply one of two adoption methods however the transition approach for DAC is required to be consistent with the one applied to the liability for future policyholder benefits:

(1) Modified retrospective transition method whereby the entity will apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or

(2) Full retrospective transition method using actual historical experience as of contract inception.

5. Enhanced financial statement presentation

Requires disclosure of disaggregated roll-forwards of significant insurance liabilities and other account balances including the liability for future policy benefits, policyholder account balances, MRBs, DAC/DIS and separate account liabilities. It also requires the provision of detailed disclosures of both qualitative and quantitative information about significant inputs, judgments and methods used in measurement, expected cash flows, estimates and assumptions and changes thereto in order to provide better transparency into the exposure of insurance entities and the drivers of their results.

Summary of ASU 2018-12 Changes

ASU 2018-12 Subject Area	Description of Requirements	Transition Provisions	Effect on the financial statements or other significant matters
Assumptions used to measure the liability for future policy benefits for nonparticipating traditional and limited payment insurance contracts	<p>Requires insurers to review and, if necessary, update cash flow assumptions at least annually.</p> <p>The effect of updating cash flow assumptions will be measured on a retrospective catch-up basis and presented in the Statement of operations in the period in which the update is made.</p> <p>The rate used to discount the liability for future policy benefits will be required to be updated quarterly, with related changes in the liability recorded in Accumulated other comprehensive income. The discount rate will be based on an upper-medium grade fixed-income corporate instrument yield reflecting the duration characteristics of the relevant liabilities.</p>	<p>Initial adoption is required to be reported using either a full retrospective or modified retrospective approach. Under either method, upon adoption the liability for future policy benefits will be remeasured using current discount rates as of the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.</p>	<p>The application of periodic assumption updates for nonparticipating traditional and limited payment insurance contracts is significantly different from the current accounting approach for such liabilities, which is based on assumptions that are locked in at contract inception unless a premium deficiency occurs. Under the current accounting guidance, the liability discount rate is based on expected yields on the underlying investment portfolio held by the insurer.</p>
Measurement of market risk benefits	<p>Creates a new category of benefit features called market risk benefits, defined as features that protect contract holders from</p>	<p>Full retrospective application is required. Upon adoption, any difference between the</p>	<p>Under the current accounting guidance, certain features that are expected to meet the</p>

	capital market risk and expose the insurers to that risk. Market risk benefits will be required to be measured at fair value, with changes in fair value recognized in the Statement of operations, except for changes in fair value attributable to changes in the instrument-specific credit risk, which will be recorded in Accumulated other comprehensive income.	fair value and pre-adoption carrying value of market risk benefits not currently measured at fair value will be recorded to retained earnings. In addition, the cumulative effect of changes in instrument specific credit risk will be reclassified from retained earnings to AOCI.	definition of market risk benefits and are accounted for as either insurance liabilities (for example, GMDB and GMIB) or embedded derivatives (for example, GMWBL and GMWB).
Amortization of DAC and other balances	Requires DAC (and other balances that refer to the DAC model, such as deferred sales inducement costs and unearned revenue liabilities) for all long-duration contracts to be measured on a constant level basis over the expected life of the contract.	Initial adoption is required to be reported using either a full retrospective or modified retrospective approach. The method of transition applied for DAC and other balances must be consistent with the transition method selected for future policy benefit liabilities, as described above.	This approach is intended to approximate straight-line amortization and cannot be based on revenue or profits as it is under the current accounting model. Related amounts in AOCI will be eliminated upon adoption. ASU 2018-12 did not change the existing accounting guidance related to VOBA and net cost of reinsurance, which allows, but does not require, insurers to amortize such balances on a basis consistent with DAC.

Source: Voya Financial 2018 10-k

International Financial Reporting Standards 17

IFRS 17 was issued in May 2017 by the IASB and is effective for years beginning on January 1, 2021, and to be applied retrospectively. As with ASU 2018-12 it represents a transformational change to insurance accounting. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. The standard will replace IFRS 4 “Insurance Contracts” and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in a company’s Financial Statements and MD&A.

In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 by one year. The proposed deferral is subject to IASB public consultation in 2019 which is expected to result in an exposure draft followed by a public comment period.

IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of (a) the fulfillment cash flows – the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk for those amounts; and (b) the contractual service margin – the future profit for providing insurance coverage.

Company Disclosure re ASU 2012-18

For ease of reference provided are excerpts from the year-end 2018 financial reports of the 35 companies we reviewed we regard to ASU 2018-12. While the level of disclosure varied considerably and was generally at a high level, one company, Aflac, stood out by providing considerably detailed information.

Insurers Expecting Impact on Financial Statements to Be Significant

Aflac – AFL

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-12, “Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts.” The update, which is expected to significantly change how insurers account for long-duration contracts, amends existing recognition, measurement, presentation, and disclosure requirements applicable to the Company. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted however, the Company does not expect to early adopt the updated standard.

The Company is thoroughly evaluating the impact of adoption of ASU 2018-12 and expects that the adoption will have a significant impact on the Company’s reported financial position, results of operations, and disclosures under U.S. GAAP accounting. The Company anticipates that the requirement to update assumptions for liability for future policy benefits will have a significant impact on its results of operations, while the requirement to update the discount rate will have a significant impact on its accumulated other comprehensive income (AOCI) and equity. There are two permitted transition methods upon adoption, full retrospective and modified retrospective. Under the full retrospective method, the Company would restate all historical periods based upon actual historical experience as of contract inception and its updated view of the contractual cash flow projections at transition. A cumulative catch-up adjustment to opening retained earnings would be recognized to reflect the actual experience and updated projections. The update of the discount rate would be recognized in AOCI. The Company will be permitted to apply a full retrospective transition approach if actual historical information is available for all contracts that will be affected by the new guidance. Under the modified retrospective method, the opening reserve balance at the transition date, January 1, 2019, would generally be the same as the closing balance before transition, updated for changes in the discount rate.

The Company expects that under either transition method, the impact to its reported financial statements under U.S. GAAP will be greatly influenced by the nature of the Company’s business model. Adoption of the new guidance under either method will reflect the Company’s concentration in Japan third-sector business, in particular cancer insurance, with respect to which the duration of liabilities is materially longer than asset durations. Depending on the transition method chosen upon adoption, the impact of a low discount rate applied to long-duration third sector liabilities is recognized at adoption, while associated favorable morbidity margins are recognized over time thus driving a pronounced timing

impact to U.S. GAAP equity. In addition, with respect to the Japan segment, the Company maintains a large portfolio of assets designated as held-to-maturity (HTM) as a strategy to reduce capital (solvency margin ratio or SMR) volatility. In a low interest rate environment, such as presently exists in Japan, assets designated as HTM that were purchased in a higher interest rate environment have significant embedded gains not reflected in AOCI, which serves as an economic offset to a low discount rate applied to policy liabilities. At December 31, 2018, the Company's HTM portfolio was \$30.3 billion at amortized cost and had \$6.5 billion in net unrealized gains. After adoption of the new guidance, the Company also expects net earnings and net earnings per share (which were \$2.9 billion and \$3.77 per diluted share, respectively, in 2018) to reflect larger quarterly fluctuations due to the new requirement to update assumptions for liability for future policy benefits.

As an example of the potential impact of the new guidance, and for illustrative purposes only, under the modified retrospective method and in a low interest rate environment, the Company would expect AOCI (which was \$2.2 billion at December 31, 2018) to significantly decline upon adoption and to thereafter reflect larger quarterly fluctuations due to the new requirement to quarterly adjust discount rates. Conversely, in a higher interest rate environment, and again assuming adoption of the modified retrospective method for illustrative purposes, the Company would expect AOCI to decline less or even increase (depending on the specifics of the interest rate environment), as well as to reflect quarterly fluctuations. Under the full retrospective method, the Company would expect lesser declines or increases in total equity upon adoption compared to the modified retrospective method due to the potential offsetting effect from updating experience and cash flow projections

The ultimate impact on these items from the Company's implementation of the updated standard is subject to assessments that are dependent on many variables, including but not limited to (i) the transition method selected by the Company, which the Company continues to evaluate, (ii) how certain aspects of the new standard will be interpreted and implemented by the Company and other similar companies, such as (but not limited to) amortization of deferred acquisition costs, as well as establishment of policies, processes and controls for setting, monitoring and periodically updating reserve assumptions, and (iii) changes in the interest rate environment in the US and Japan.

The Company does not expect to early adopt the updated standard.

American International Group - AIG

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary, update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.

- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of deferred acquisition costs (DAC) to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

We plan to adopt the standard on its effective date of January 1, 2021. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. The adoption of this standard is expected to have a significant impact on our consolidated financial condition, results of operations, cash flows and required disclosures, as well as systems, processes and controls.

Allstate Life - ALL

In August 2018, the FASB issued guidance revising the accounting for certain long-duration insurance contracts. The new guidance changes the measurement of the Company's reserves for traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products. Under the new guidance, measurement assumptions, including those for mortality, morbidity and policy terminations, will be required to be reviewed and updated at least annually. The effect of updating measurement assumptions other than the discount rate are required to be determined on a retrospective basis and reported in net income. In addition, cash flows under the new guidance are required to be discounted using an upper medium grade fixed income instrument yield that is updated through OCI at each reporting date. These changes will replace current GAAP, which utilizes assumptions set at policy issuance until such time as the assumptions result in reserves that are deficient when compared to reserves computed using current assumptions. Under current GAAP, premium deficiency reserves are recognized in the amount of the deficiency, if any, computed using current assumptions.

The new guidance requires DAC and other capitalized balances currently amortized in proportion to premiums or gross profits to be amortized on a constant level basis over the expected term for all long duration insurance contracts. DAC will not be subject to loss recognition testing but will be reduced when actual experience exceeds expected experience (i.e. as a result of unexpected contract terminations). The new guidance will no longer require adjustments to DAC and deferred sales inducement costs ("DSI") related to unrealized gains and losses on investment securities supporting the related business.

Market risk benefit product features are required to be measured at fair value with changes in fair value recorded in net income with the exception of changes in the fair value attributable to changes in the Company's own credit risk, which are required to be recognized in OCI. Substantially all of the Company's market risk benefits are reinsured and therefore these impacts are not expected to be material to the Company.

The new guidance is to be included in the comparable financial statements issued in reporting periods beginning after December 15, 2020, thereby requiring restatement of prior periods presented. Early adoption is permitted. The new guidance will be applied to affected contracts and DAC on the basis of existing carrying amounts at the earliest period presented or it may be applied retrospectively using actual historical experience as of contract inception. The new guidance for market risk benefits is required to be adopted retrospectively.

The Company is evaluating the anticipated impacts of applying the new guidance to both retained income and AOCI. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged. The Company has not completed its evaluation of the specific impacts of adopting the new guidance, but anticipates the financial statement impact of migrating from existing GAAP to that required by the new guidance to be material, largely attributed to the impact of transitioning from an original investment-based discount rate to one based on an upper-medium grade fixed income investment yield and updates to mortality assumptions that had previously been locked in at issuance. The Company expects the most significant impacts will occur within the life-contingent immediate annuity products. The revised accounting for DAC will be applied prospectively using the new model and any DAC effects existing in AOCI as a result of applying existing GAAP at the date of adoption will be reversed.

Brighthouse - BHF

The FASB issued an accounting standards update ("ASU") on August 15, 2018 that will result in significant changes to the accounting for long-duration insurance contracts, including that all of our variable annuity guarantees will be considered market risk benefits and measured at fair value, whereas today a significant amount of our variable annuity guarantees are carried as insurance. The ASU is expected to be effective as of January 1, 2021 and the Company is in the early stages of evaluating the new guidance and is therefore currently not able to estimate the impact to its financial statements. The most significant impact will be the requirement to measure all variable annuity guarantees at fair value. At current market interest rate levels, the ASU could result in a material decrease in our stockholders' equity, which may have a material adverse effect on our financial leverage ratio and could consequently adversely impact our financial strength ratings and our ability to incur new indebtedness or refinance our existing indebtedness. In addition, the ASU could also result in increased market sensitivity of our financial statements and results of operations. As a result, in the future we may consider making significant changes to our business including, without limitation, our variable annuity exposure management strategy.

Equitable Holdings - EQH

FASB has issued several accounting standards updates which have resulted in significant changes in U.S. GAAP, including how we account for our financial instruments and how our financial statements are presented. The changes to U.S. GAAP could affect the way we account for and report significant areas of our business, could impose special demands on us in the areas of governance, employee training, internal controls and disclosure and will likely affect how we manage our business. In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance (Topic 944), which applies to all insurance entities that issue long duration contracts and revises elements of the measurement models for traditional nonparticipating long-duration and limited payment insurance liabilities and recognition and amortization model for DAC for most long-duration contracts. The new accounting standard also requires product features that have other-than-nominal credit risk, or market risk benefits (“MRBs”), to be measured at fair value. ASU 2018-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted.

Management currently is evaluating the impact that adoption of this guidance will have on the Company’s consolidated financial statements and related disclosures. The Company has formed a project implementation team to work on compiling all significant information needed to assess the impact of the new guidance, including changes to system requirements and internal controls. The Company expects adoption of the ASU will have a significant impact on its consolidated financial condition, results of operations, cash flows and required disclosures, as well as processes and controls.

In addition, AXA, our controlling stockholder, prepares consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). From time to time, AXA may be required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the International Accounting Standards Board. In the future, new accounting pronouncements, as well as new interpretations of existing accounting pronouncements, may have material adverse effects on AXA’s business, results of operations or financial condition which could impact the way we conduct our business (including, for example, which products we offer), our competitive position, our hedging program and the way we manage capital.

FBL Financial - FFG

We are currently evaluating the impact of this guidance on our consolidated financial statements but expect the impact to the timing of profit emergence for the impacted insurance contracts to be significant. Adoption of certain portions of the guidance may be applied on a modified retrospective basis and others on a full retrospective basis. Early adoption is allowed.

General Electric

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The ASU is effective for periods beginning after December 15, 2020, with an election to adopt early. We are evaluating the effect of the standard on our consolidated financial statements and anticipate that its adoption will significantly change the accounting for measurements of our long duration insurance liabilities. The ASU requires cash flow assumptions used in the

measurement of various insurance liabilities to be reviewed at least annually and updated if actual experience or other evidence indicates previous assumptions need to be revised with any required changes recorded in earnings. Under the current accounting guidance, the discount rate is based on expected investment yields, while under the ASU the discount rate will be equivalent to the upper-medium grade (i.e., single A) fixed-income instrument yield reflecting the duration characteristics of the liability and is required to be updated in each reporting period with changes recorded in accumulated other comprehensive income. In measuring the insurance liabilities, contracts shall not be grouped together from different issue years. These changes result in the elimination of premium deficiency testing and shadow adjustments. While we continue to evaluate the effect of the standard on our ongoing financial reporting, we anticipate that the adoption of the ASU will materially affect our financial statements. As the ASU is only applicable to the measurements of our long-duration insurance liabilities under GAAP, it will not affect the accounting for our insurance reserves or the levels of capital and surplus under statutory accounting practices.

Genworth - GNW

For example, new accounting guidance (that is not yet effective for us) related to long-duration insurance contracts (including term life insurance, life-contingent structured settlements and immediate annuities and long-term care insurance) and financial instruments could result in increased earnings volatility as well as other comprehensive income (loss). In addition, the implementation of these or other proposals could require us to make significant changes to systems and use additional resources, resulting in significant incremental costs to implement the proposals.

In August 2018, the FASB issued new accounting guidance that significantly changes the recognition and measurement of long-duration insurance contracts and expands disclosure requirements, which impacts our life insurance DAC and liabilities. In accordance with the guidance, the more significant changes include:

- assumptions will no longer be locked-in at contract inception and all cash flow assumptions used to estimate the liability for future policy benefits will be reviewed at least annually in the same period each year or more frequently if actual experience indicates a change is required;
- changes in cash flow assumptions (except the discount rate) will be recorded in net income (loss) using a retrospective approach with a cumulative catch-up adjustment by recalculating the net premium ratio (which will be capped at 100%) using actual historical and updated future cash flow assumptions;
- the discount rate used to determine the liability for future policy benefits will be a current upper-medium grade (low credit risk) fixed-income instrument yield, which is generally interpreted to mean a single-A rated bond rate for the same duration, and is required to be reviewed quarterly, with changes in the discount rate recorded in other comprehensive income (loss);
- the provision for adverse deviation and the premium deficiency test are eliminated;

- market risk benefits associated with deposit-type contracts will be measured at fair value with changes recorded in net income (loss);
- the amortization method for DAC will generally be on a straight-line basis over the expected contract term; and
- disclosures will be greatly expanded to include significant assumptions and product liability rollforwards.

The guidance is currently effective for us on January 1, 2021 using the modified retrospective method, with early adoption permitted. We are in process of evaluating the new guidance and the impact it will have on our consolidated financial statements.

Jackson National

The Company has begun its implementation efforts and is currently assessing the impact of the new guidance. Given the nature and extent of the required changes, the adoption of this standard is expected to have a significant impact on the Company's consolidated financial statements and disclosures. In addition to the initial balance sheet impact upon adoption, the Company also expects a change in the future pattern of profit emergence.

Lincoln National - LNC

Specifically, in August 2018, the FASB released Accounting Standards Update ("ASU") 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, that is expected to result in significant changes to how we account for and report our insurance contracts (both in-force and new business), including updating assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts, measurement of market risk benefits and amortization of deferred acquisition costs ("DAC"). These changes may impose special demands on companies in the areas of employee training, internal controls, contract fulfillment and disclosure and may affect how we manage our business, including business processes such as design of compensation plans, product design, etc. The effective date is January 1, 2021, and there are various transition methods by topic that we may elect upon adoption. We will report results under the new accounting method as of the effective date, as well as for all periods presented. We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

MetLife - MET

The Company has started its implementation efforts and is currently evaluating the impact of the new guidance. Given the nature and extent of the required changes to a significant portion of the Company's operations, the adoption of this standard is expected to have a material impact on its consolidated financial statements.

National Life Group

In August 2018, the FASB issued ASU 2018-12 *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. This guidance is intended to simplify and improve the recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. For non-public entities, the pronouncement is effective for fiscal

years beginning after December 15, 2021. Early application is permitted. The Company is currently assessing the timing for adoption of this standard. The adoption of this standard is expected to have a material effect on the Company's consolidated financial condition and results of operations.

New York Life

In August 2018, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The guidance requires insurance entities to update, on retrospective basis, the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually with the changes recognized through net income. This includes use of an upper-medium grade (low-credit-risk) fixed income discount rate that is required to be updated quarterly with changes recorded through accumulated other comprehensive income. The updated guidance also changes the amortization method of deferred acquisition costs and the measurement of market risk benefits. The guidance significantly impacts the accounting for the traditional and limited-pay contracts. The Company plans to adopt this guidance on its required effective date of January 1, 2022. Currently an assessment of the impact is being performed with an expectation that the updated guidance will have a significant impact on the Company's financial statements.

Principal Financial - PFG

In August 2018, the FASB issued final guidance on targeted improvements to the accounting for long-duration insurance contracts. The guidance will become effective for us on January 1, 2021. We are still evaluating the impact this guidance will have on our consolidated financial statements, but it could negatively impact our reported profitability and financial ratios. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation and ongoing compliance.

Our implementation and evaluation process to date includes, but is not limited to, identifying and documenting contracts and contract features in scope of the guidance; identifying the actuarial models, systems and processes to be updated; and evaluating our systems solutions for implementing. As we progress through our implementation, we will be able to better assess the impact to our consolidated financial statements; however, we expect this guidance to significantly change how we account for many of our annuity and insurance products.

Primerica – PRI

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944) — Targeted Improvements to the Accounting for Long-Duration Contracts ("ASU 2018-12"). The amendments in this update will change the accounting guidance we follow for long-duration insurance contracts. The most notable amendment included in ASU 2018-12 will require us to update assumptions used in measuring future policy benefits, including mortality and persistency, at least annually instead of locking those assumptions at contract inception and reflecting differences in assumptions and actual performance as the experience occurs. ASU 2018-12 also includes changes to how we amortize DAC and determine and update the discount rate assumptions used in measuring future policy benefits reserves while increasing the level of financial

statement disclosures required. The amendments in ASU 2018-12 are scheduled to be effective for the Company beginning in 2021 as of the earliest period presented in the consolidated financial statements. We anticipate that the adoption of ASU 2018-12 will have a pervasive impact on our consolidated financial statements and related disclosures and will require changes to certain of our processes, systems, and controls. This new accounting standard, in addition to other financial reporting standard changes being discussed by the FASB and the SEC, could adversely impact both our financial condition and results of operations as reported on a U.S. GAAP basis.

We anticipate that the adoption of ASU 2018-12 will have a pervasive impact on our consolidated financial statements and related disclosures and will require changes to certain of our processes, systems and controls. We are unable to determine the magnitude of its impact at this time as we are in the planning phase of the multi-year process necessary to evaluate and implement the standard.

Prudential Financial - PRU

ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, was issued by the FASB on August 15, 2018 and is expected to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. The ASU is effective January 1, 2021 (with early adoption permitted), and will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. Outlined below are four key areas of change, although there are other less significant changes not noted below. In addition to the impacts to the balance sheet upon adoption, the Company also expects an impact to how earnings emerge thereafter.

- *Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products* – The options for method of adoption and the impacts of such methods are under assessment.
- *Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products* - Upon adoption, under either transition method, there will be an adjustment to AOCI as a result of remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between the discount rate locked-in at contract inception versus current discount rates at transition. The magnitude of such adjustment is currently being assessed.
- *Amortization of deferred acquisition costs (DAC) and other balances* - The options for method of adoption and the impacts of such methods are under assessment. Under the modified retrospective transition method, the Company would not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
- *Market Risk Benefits* - Upon adoption, the Company expects an impact to retained earnings for the difference between the fair value and carrying value of benefits not currently measured at fair value (e.g., Guaranteed Minimum Death Benefits (“GMDB”) on variable annuities) and an

impact from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. The magnitude of such adjustments is currently being assessed.

Reinsurance Group of America - RGA

The guidance on measuring the liabilities for future policy benefits and DAC will likely be adopted on a modified retrospective basis as of the earliest period presented in the year of adoption. The guidance on MRB will be adopted on a retrospective basis as of the earliest period presented in the year of adoption. The Company is currently evaluating the impact of this amendment on its consolidated financial statements but anticipates the updated guidance will likely have a material impact on the measurement and recognition of its long-duration insurance contracts.

Voya Financial - VOYA

In August 2018, the FASB issued ASU 2018-12, "Financial Services - Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts" ("ASU 2018-12"), which changes the measurement and disclosures of insurance liabilities and deferred acquisition costs for long-duration contracts issued by insurers. The provisions of ASU 2018-12 are effective for fiscal years beginning after December 15, 2020, including interim periods, with early adoption permitted. The Company is currently in the process of evaluating the provisions of ASU 2018-12. While it is not possible to estimate the expected impact of adoption at this time, the Company believes that 2018-12 may result in a significant impact on Shareholders' equity and future earnings patterns.

- *Assumptions used to measure the liability for future policy benefits for nonparticipating traditional and limited payment insurance contracts* - The implications of these requirements, including transition options, and related potential financial statement impacts are currently being evaluated.
- *Measurement of market risk benefits* – The implications of these requirements and related potential financial statement impacts are currently being evaluated.
- *Amortization of DAC and other balances* – The implications of these requirements, including transition options, and related potential financial statement impacts are currently being evaluated.

Insurers Still Assessing Potential Impact on Financial Statements

American Equity Life - AEL

In August 2018, the FASB issued an ASU that revises certain aspects of the measurement models and disclosure requirements for long duration insurance and investment contracts. The FASB's objective in issuing this ASU is to improve, simplify, and enhance the accounting for long-duration contracts. The revisions include updating cash flow assumptions in the calculation of the liability for traditional life products, introducing the term 'market risk benefit' ("MRB") and requiring all contract features meeting the definition of an MRB to be measured at fair value, simplifying the method used to amortize deferred policy acquisition costs and deferred sales inducements to a constant basis over the expected term of the related contracts rather than based on gross profits and enhancing disclosure requirements. While this ASU is effective for us on January 1, 2021, the transition date (the remeasurement date) is January

1, 2019. Early adoption of this ASU is permitted. We are in process of evaluating the impact this guidance will have on our consolidated financial statements.

American Financial Group

In August 2018, the FASB issued ASU 2018-12, Financial Services – Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts, which changes the assumptions used to measure the liability for future policy benefits for traditional and limited pay contracts (e.g. life, accident and health benefits) from being locked in at inception to being updated at least annually and standardizes the liability discount rate to be used and updated each reporting period, requires the measurement of market risk benefits associated with deposit contracts (e.g. annuities) to be recorded at fair value, simplifies the amortization of deferred policy acquisition costs to a constant level basis over the expected life of the related contracts and requires enhanced disclosures. AFG will be required to adopt this guidance effective January 1, 2022. AFG cannot estimate the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

Ameriprise - AMP

In August 2018, the FASB updated the accounting standard related to long-duration insurance contracts. The guidance revises key elements of the measurement models and disclosure requirements for long-duration insurance contracts issued by insurers and reinsurers.

The guidance establishes a significant new category of benefit features called market risk benefits that protect the contract holder from other-than-nominal capital market risk and expose the insurer to that risk. Insurers will have to measure market risk benefits at fair value. Market risk benefits include variable annuity guaranteed benefits (i.e. guaranteed minimum death, withdrawal, withdrawal for life, accumulation and income benefits). The portion of the change in fair value attributable to a change in the instrument-specific credit risk of market risk benefits in a liability position will be recorded in OCI.

Significant changes also relate to the measurement of the liability for future policy benefits for nonparticipating traditional long-duration insurance contracts and immediate annuities with a life contingent feature include the following:

- Insurers will be required to review and update the cash flow assumptions used to measure the liability for future policy benefits rather than using assumptions locked in at contract inception. The review of assumptions to measure the liability for all future policy benefits will be required annually at the same time each year, or more frequently if suggested by experience. The effect of updating assumptions will be measured on a retrospective catch-up basis and presented separate from the ongoing policyholder benefit expense in the statement of operations in the period the update is made. This new unlocking process will be required for the Company's term and whole life insurance, DI and LTC insurance and immediate annuities with a life contingent feature.
- The discount rate used to measure the liability for future policy benefits will be standardized. The current requirement to use a discount rate reflecting expected investment yields will change to an upper-medium grade (low credit risk) fixed income corporate instrument yield

(generally interpreted as an “A” rating) reflecting the duration characteristics of the liability. Entities will be required to update the discount rate at each reporting date with the effect of discount rate changes reflected in OCI.

- The current premium deficiency test is being replaced with a net premium ratio cap of 100%. If the net premium ratio (i.e. the ratio of the present value of total expected benefits and related expenses to the present value of total expected premiums) exceeds 100%, insurers are required to recognize a loss in the statement of operations in the period. Contracts from different issue years will no longer be permitted to be grouped to determine contracts in a loss position.

In addition, the update requires DAC and DSIC relating to all long-duration contracts and most investment contracts to be amortized on a straight-line basis over the expected life of the contract independent of profit emergence. Under the new guidance, interest will not accrue to the deferred balance and DAC and DSIC will not be subject to an impairment test.

The update requires significant additional disclosures, including disaggregated rollforwards of the liability for future policy benefits, policyholder account balances, market risk benefits, DAC and DSIC, as well as qualitative and quantitative information about expected cash flows, estimates and assumptions. The update is effective for interim and annual periods beginning after December 15, 2020. The standard should be applied to the liability for future policy benefits and DAC and DSIC on a modified retrospective basis and applied to market risk benefits on a retrospective basis with the option to apply full retrospective transition if certain criteria are met. Early adoption is permitted. The Company is currently evaluating the impact of the standard on its consolidated results of operations, financial condition and disclosures.

Assurant - AIZ

In August 2018, the FASB issued guidance that provides targeted improvements to the accounting for long-duration contracts. The guidance includes the following primary changes: assumptions supporting benefit reserves will no longer be locked-in but must be updated at least annually with the impact of changes to the liability reflected in earnings (except for discount rates); the discount rate assumptions will be based on upper-medium grade (low credit risk) fixed-income instruments instead of the earnings rate of invested assets; the discount rate must be evaluated at each reporting date and the impact of changes to the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income; the provision for adverse deviation is eliminated; and premium deficiency testing is eliminated. Other noteworthy changes include the following: differing models for amortizing deferred acquisition costs will become uniform for all long-duration contracts based on a constant rate over the expected term of the related in-force contracts; all market risk benefits associated with deposit contracts must be reported at fair value with changes reflected in income except for changes related to credit risk which will be recognized in other comprehensive income; and disclosures will be expanded to include disaggregated roll forwards of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs, as well as information about significant inputs, judgments, assumptions and methods used in measurement.

For public business entities, the guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. Generally, the amendments are applied retrospectively as of the beginning of the earliest period presented with two transition options available for the changing the assumptions.

This guidance will apply to the Company's preneed life insurance policies, as well as its annuity and universal life products (which are no longer offered and are in runoff). The Company is evaluating the potential impact of this guidance on its financial position and results of operations.

Athene - ATH

Targeted Improvements to the Accounting for Long-Duration Contracts (ASU 2018-12)

This update amends four key areas pertaining to the accounting and disclosures for long-duration insurance and investment contracts.

- The update requires cash flow assumptions used to measure the liability for future policy benefits to be updated at least annually and no longer allows a provision for adverse deviation. The remeasurement of the liability associated with the update of assumptions is required to be recognized in net income. Loss recognition testing is eliminated for traditional and limited-payment contracts. The update also requires the discount rate utilized in measuring the liability to be an upper-medium grade fixed-income instrument yield, which is to be updated at each reporting date. The change in liability due to changes in the discount rate is to be recognized in other comprehensive income.
- The update simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized on a constant level basis over the expected term of the contracts. Deferred costs are required to be written off for unexpected contract terminations but are not subject to impairment testing.
- The update requires certain contract features meeting the definition of market risk benefits to be measured at fair value. Among the features included in this definition are the guaranteed lifetime withdrawal benefits (GLWB) and guaranteed minimum death benefit (GMDB) riders attached to the Company's annuity products. The change in fair value of the market risk benefits is to be recognized in net income, excluding the portion attributable to changes in instrument-specific credit risk which is recognized in other comprehensive income.
- The update also introduces disclosure requirements around the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. This includes disaggregated rollforwards of these balances and information about significant inputs, judgments, assumptions and methods used in their measurement.

We will be required to adopt this update effective January 1, 2021. Certain provisions of the update are required to be adopted on a fully retrospective basis, while others may be adopted on a modified

retrospective basis. Early adoption is permitted effective January 1, 2019. We are currently evaluating the impact of this guidance on our consolidated financial statements.

CNO Financial -CNO

In August 2018, the FASB issued authoritative guidance that will result in significant changes in the manner we account for and report our insurance contracts, including certain contract riders and deferred acquisition costs. The effective date is January 1, 2021.

The significant provisions of the new standard and differences from current methods are summarized below:

- Under the current standard, liabilities for future policy benefits for long-duration products are established based on assumptions set at the issue date which are not changed unless there is a premium deficiency. Under the new standard, mortality, morbidity, persistency and expense assumptions must be reviewed for potential changes at least annually. For these assumption changes, the liability for future policy benefits is recomputed and a cumulative catch-up adjustment is recorded in current year income. The interest rate used to discount future cash flows will be based on the current yield of an upper-medium grade fixed income instrument and must be updated each reporting period; changes in the liability resulting from interest rate changes are recorded in accumulated other comprehensive income. Under current methods, the interest rate is based on expected yields on the underlying investment portfolio estimated at the issue date.
- We will no longer be permitted to include a provision for adverse deviation in calculations of the liability for future policy benefits.
- Since assumptions are updated regularly, there is no longer a need for premium deficiency testing.
- The new guidance introduces the concept of market risk benefits for product features such as guaranteed minimum death or income benefits, which must be accounted for at fair value.
- Deferred acquisition costs will generally be amortized on a constant level basis over the expected term of the contracts. Amortization based on estimated gross profits or gross margins will no longer be permitted. Deferred acquisition costs will no longer need to be tested for impairment and no interest is accreted. Adjustments for the change in amortization that would have occurred if fixed maturity securities, available for sale, had been sold at their aggregate fair value and the proceeds reinvested at current yields (commonly referred to as "shadow adjustments") will no longer be required.
- Significant additional annual and interim disclosures will be required including requirements for disaggregated rollforwards of the liability for future policy benefits, policyholder account balances, market risk benefits and deferred acquisition costs, as well as qualitative and quantitative information about expected cash flows, estimates and assumptions.

The new guidance is generally required to be adopted on a modified retrospective transition approach, with an option to elect a full retrospective transition if certain criteria are met. The transition approach for deferred acquisition costs is required to be consistent with the transition applied to the liability for future policyholder benefits. Under the modified retrospective approach, an entity would continue to use the existing locked-in investment yield interest rate assumption to calculate the net premium ratio for contracts in-force at the transition date. However, for balance sheet remeasurement purposes, the current upper-medium grade fixed-income corporate instrument yield would be used with the difference in values recognized through accumulated other comprehensive income at transition and subsequently through other comprehensive income. For market risk benefits, retrospective application is required, with the ability to use hindsight to measure fair value components to the extent assumptions in a prior period are unobservable or otherwise unavailable. We are currently in the early stages of implementing our project plan with respect to the new standard. Accordingly, we are continuing to evaluate the impact of adopting this new standard on our consolidated financial condition and results of operations.

Fidelity & Guaranty Life - FGL

In August 2018, the FASB issued new guidance (ASU 2018-12, Financial Services-Insurance (Topic 944), Targeted Improvements to the Accounting for Long-Duration Contracts), effective for fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. Under this update:

- assumptions used to measure cash flows for traditional and limited-payment contracts must be reviewed at least annually with the effect of changes in those assumptions being recognized in the statement of operations
- the discount rate applied to measure the liability for future policy benefits and limited-payment contracts must be updated at each reporting date with the effect of changes in the rate being recognized in other comprehensive income
- market risk benefits associated with deposit contracts must be measured at fair value, with the effect of the change in the fair value attributable to a change in the instrument-specific credit risk being recognized in other comprehensive income
- deferred acquisition costs are required to be amortized in proportion to premiums, gross profits, or gross margins and those balances must be amortized on a constant level basis over the expected term of the related contracts
- deferred acquisition costs must be written off for unexpected contract terminations
- disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs, as well as information about significant inputs, judgments, assumptions, and methods used in measurement are required to be disclosed

The amendments in this ASU may be early adopted as of the beginning of an annual reporting period for which financial statements have not yet been issued, including interim financial statements. The Company does not currently expect to early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Hartford Insurance Group – HIG

The FASB issued new guidance on accounting for long-duration insurance contracts. The Company's long-duration insurance contracts include paid-up life insurance and whole-life insurance policies resulting from conversion from group life policies and run-off structured settlement and terminal funding agreement liabilities with total future policy benefit reserves of \$642 as of December 31, 2018. Under existing guidance, a reserve for future policy benefits is calculated as the present value of future benefits and related expenses less the present value of any future premiums using assumptions "locked in" at the time the policies were issued, including discount rate, lapse rate, mortality, and expense assumptions. Under existing guidance, assumptions are only updated if there is an expected premium deficiency. The new guidance will require that underlying cash flow assumptions (such as for lapse rate, mortality and expenses) be reviewed and updated at least annually in the same quarter each year. The new guidance also requires that the discount rate assumption be updated each quarter and be based on an upper-medium grade (low-credit-risk) fixed income investment yield. The change in the reserve estimate as a result of updating cash flow assumptions will be recognized in net income. The change in the reserve estimate as a result of updating the discount rate assumption will be recognized in other comprehensive income. Because reserves will be based on updated assumptions and no longer locked in at contract inception, there will no longer be a test for premium deficiency. The new guidance will be effective January 1, 2021 and will be applied to balances in place as of the earliest period presented. Early adoption is permitted. The Company has not yet determined the method or timing for adoption or estimated the effect on the Company's financial statements.

Horace Mann - HMN

In August 2018, the FASB issued accounting and disclosure guidance that contains targeted changes to the accounting for long-duration insurance contracts. Under the new guidance, the cash flow assumptions used to measure the liability for future policy benefits for traditional insurance contracts will be required to be updated at least annually with changes recognized as a benefit expense (i.e., assumptions will no longer be locked-in). Insurance entities will be required to use a standard discount rate to measure the liabilities that will be equivalent to the yield from a high-quality bond. The new guidance also changes the amortization of DAC to be on a constant-level basis over the expected term of the related contracts with no interest accruing on the DAC balance. The new guidance also introduces a new category of contract features associated with deposit type contracts referred to as market risk benefits (MRBs). Contract features meeting the definition of a MRB will be measured at fair value. New disclosures will be required for long duration insurance contracts in order to provide better transparency into the exposure of insurance entities and the drivers of their results. For public business entities, the guidance is effective for annual reporting periods beginning after December 15, 2020, including interim periods within those years. With regards to the liability for future policy benefits and DAC, the guidance applies to contracts in force as of the beginning of the earliest period presented and may be applied retrospectively. With regards to MRBs, the guidance is to be applied retrospectively at the beginning of the earliest period presented. Early adoption is permitted. Management is evaluating the impact this guidance will have on the results of operations and financial position of the Company.

Nationwide

In August 2018, the FASB issued ASU 2018-12, *Financial Instruments – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The amended guidance makes targeted improvements to the accounting for long-duration contracts for insurance entities to provide more decision-useful information, including requiring fair value measurement of certain contract features, requiring at least annual updates of cash flow assumptions and quarterly updates of discount rates in traditional product reserves and simplifying DAC amortization to be on a constant basis over the life of the contract. The guidance is effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently in the process of determining the impact of adoption.

Pacific Life

In 2018, the FASB issued targeted improvements to the accounting for long-duration insurance contracts, ASU 2018-12. The objective of this guidance is to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The new guidance improves the timeliness of recognizing changes in the liability for future policy benefits for traditional long-duration contracts by requiring that underlying cash flow assumptions be reviewed and updated at least annually. The rate used to discount future cash flows must be based on an upper-medium grade fixed income investment yield. The change in the reserve estimate as a result of updating cash flow assumptions will be recognized in net income. The change in the reserve estimate as a result of updating the discount rate assumption will be recognized in OCI. The new guidance also creates a new category of market risk benefits (i.e., features that protect the contract holder from more than nominal capital market risk) for certain guarantees associated with contracts which are required to be measured at fair value with changes recognized in net income. In addition, the new guidance simplifies the amortization of deferred policy acquisition costs and other similar capitalized balances (i.e., unearned revenue reserves) by requiring such costs to be amortized on a constant-level basis that approximates the straight-line method. Lastly, the new guidance increases and enhances the disclosures related to long-duration insurance contracts. The new guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Protective Life - PL

The amendments in this Update are designed to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for certain long-duration contracts issued by an insurance company. The new amendments require insurance entities to provide a more current measure of the liability for future policy benefits for traditional and limited-payment contracts by regularly refining the liability for actual past experience and updated future assumptions. This differs from current requirements where assumptions are locked-in at contract issuance for these contract types. In addition, the updated liability will be discounted using an upper-medium grade (low-credit-risk) fixed income instrument yield that reflects the characteristics of the liability which differs from currently used rates based on the invested assets supporting the liability. In addition, the amendments introduce

new requirements to assess market-based insurance contract options and guarantees for Market Risk Benefits and measure them at fair value. This Update also requires insurance entities to amortize deferred acquisition costs on a constant-level basis over the expected life of the contract. Finally, this Update requires new disclosures including liability rollforwards and information about significant inputs, judgements, assumptions, and methods used in the measurement. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2020 with early adoption permitted. The Company is currently reviewing its policies, processes, and applicable systems to determine the impact this standard will have on its operations and financial results.

Securian

In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts impacting the accounting and disclosure for long-duration contracts issued by the Company. The new guidance (i) modifies the discount rate to be used in measuring the liability for future policy benefits for traditional and limited payment long-duration contracts, and requires assumptions for those liability valuations to be updated after contract inception at least annually, (ii) requires market risk benefits associated with account balance contracts to be accounted for at fair value, (iii) simplifies the amortization of DAC for most long-duration contracts, and (iv) introduces certain financial statement presentation requirements, as well as requires additional quantitative and qualitative disclosures. ASU 2018-12 is effective for the annual reporting period beginning January 1, 2022 and provides various transition methods by topic that entities may elect upon adoption. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Symetra - SYA

This standard substantially changes the accounting treatment of long-duration contracts. Entities will now be required to regularly review and update assumptions used to measure the liability for future policy benefits, which were previously locked at contract inception and held constant over the contract term. Assumptions used to measure discounted cash flows will be reviewed at least annually, and the discount rate assumption will be updated at each reporting date based on a standardized, market-observable discount rate. Entities will also be required to use a fair value model to measure their market risk benefits, with the insurance accrual model no longer an option. The standard also simplifies the DAC amortization method for all long-duration contracts by replacing the previous earnings-based methods with a constant level approach. The update will also require additional financial statement disclosures, including a rollforward of the liability and information about significant assumptions used. The update is effective beginning January 1, 2022, with early adoption permissible.

The Company is in the early stages of assessing the impact of the standard on its annuity and life insurance contracts. The Company plans to early adopt on January 1, 2021.

Talcott Resolution

The FASB issued ASU 2018-12 on August 15, 2018 which impacts the existing recognition, measurement, presentation, and disclosure requirements for certain long duration contracts issued by an insurance company. The guidance is intended to improve the timeliness of recognizing changes in the liability for

future policy benefits by requiring annual or more frequent updates of insurance assumptions and modifying the rate used to discount future cash flows. Cash flows under the new guidance are required to be discounted using an upper-medium grade fixed income instrument yield. The discount rate is required to be updated at each reporting date, with the effect of discount rate changes on the liability recorded in OCI. This is a change from current GAAP which utilizes assumptions, including discount rate, "locked in" at policy issuance and until such time as significant changes in experience or assumptions may require the Company to establish premium deficiency reserves. When this occurs, premium deficiency reserves are recognized by unlocking reserve assumptions to eliminate a reserve deficiency under current GAAP.

Further, the guidance seeks to improve the accounting for certain market-based options or guarantees associated with account balance contracts and improve the effectiveness of the required disclosures. These market risk benefit features are required to be measured at fair value with changes in fair value recorded in net income with the exception of changes in the fair value attributable to a change in the instrument's credit risk, which are required to be recognized in OCI.

This ASU is effective January 1, 2021 with early adoption permitted. The Company is currently assessing the anticipated impacts of applying ASU 2018-12 on its financial statements. While this guidance represents a material change from existing GAAP it does not change the underlying economics of the business or its related cash flows. The Company has not yet determined the timing of its adoption.

Torchmark - TMK

ASU 2018-12 will require changes to the Company's actuarial systems and data inputs related to the valuation of the future policy benefits. The Company is in the process of evaluating the impact this guidance will have on the consolidated financial statements and cannot reasonably estimate such impact at this time.

Unum - UNM

Our financial statements are subject to the application of generally accepted accounting principles, in the United States, the United Kingdom, and Poland, which are periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the U.S. Financial Accounting Standards Board (FASB), the U.K. Accounting Standards Board (ASB), and the NAIC. Accounting standards issued by the FASB and ASB may be influenced by the International Accounting Standards Board (IASB). Future accounting standards we adopt, including the FASB's accounting standard update related to long-duration target improvements for insurance contracts, will change current accounting and disclosure requirements applicable to our financial statements. Such changes may have a material effect on our reported results of operations or financial condition.

This update significantly amends the accounting and disclosure requirements for long-duration insurance contracts. These changes include a requirement to review, and if necessary, update cash flow assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually, with changes recognized in earnings. In addition, an entity will be required to

update the discount rate assumption at each reporting date using a yield that is reflective of an upper-medium grade fixed-income instrument, with changes recognized in other comprehensive income. These changes result in the elimination of the provision for risk of adverse deviation and premium deficiency (or loss recognition) testing. The update also requires that an entity measure all market risk benefits associated with deposit contracts at fair value, with changes recognized in earnings except for the portion attributable to a change in the instrument-specific credit risk, which is to be recognized in other comprehensive income. This update also simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are no longer subject to an impairment test. Significant additional disclosures will also be required, which include disaggregated rollforwards of certain liability balances and the disclosure of qualitative and quantitative information about expected cash flows, estimates, and assumptions. The application of this guidance will vary based upon the specific requirements of the update but will generally result in either a modified retrospective or full retrospective approach with changes applied as of the beginning of the earliest period presented. Early adoption is permitted.

We have not yet determined the expected impact on our financial position or results of operations.

Appendix A – Statutory vs. U.S. GAAP Basis of Accounting

Appendix A – Statutory vs. U.S. GAAP Basis of Accounting

Prescribed statutory accounting principles (SAP) include the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners (“NAIC”) as well as state laws, regulations, and general administrative rules applicable to insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority.

Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, recognizing certain policy fees as revenue when billed, establishing future policy benefit liabilities using different actuarial assumptions, reporting surplus notes as surplus instead of debt, as well as the valuation of investments and certain assets and accounting for deferred income taxes on a different basis.

Significant Differences of GAAP vs SAP

The primary differences are as follows:

- Investments in subsidiaries and other controlled entities, including partnerships, limited liability companies and joint ventures, are not consolidated with the financial statements of the Company, whereas under U.S. GAAP, consolidated financial statements are prepared;
- Contracts that have any mortality or morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts, whereas under U.S. GAAP, only contracts that have significant mortality or morbidity risk are classified as insurance contracts otherwise they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments;
- Costs related to acquiring insurance contracts (principally commissions), policy issue expenses and sales inducements are charged to income in the period incurred, whereas under U.S. GAAP, these costs are deferred when related to successful sales and amortized over the periods benefited;
- Life insurance and annuity reserves are based on different statutory methods and assumptions than they are under U.S. GAAP;
- Dividends on participating policies are recognized for the full year when approved by the board of directors of the Company, whereas under U.S. GAAP they are accrued when earned by policyholders;

- Certain policies which do not pass through all investment gains to policyholders are maintained in separate accounts, whereas U.S. GAAP reports these policies in the general account assets and liabilities of the Company;
- Reinsurance agreements are accounted for as reinsurance on an NAIC SAP and U.S. GAAP basis if certain risk transfer provisions have been met. NAIC SAP requires the reinsurer to assume insurance risk, regardless of the significance of the loss potential, whereas U.S. GAAP requires that there is a reasonable possibility that the reinsurer may realize significant loss from assuming insurance risk.
- Under U.S. GAAP, certain reinsurance assumed by the Company is accounted for at fair value based on the election of the fair value option, whereas this treatment is not allowed under SAP.
- Assets and liabilities from reinsurance transactions are reported net of reinsurance, whereas under U.S. GAAP, assets and liabilities from reinsurance transactions are reported gross of reinsurance;
- U.S. GAAP requires that for certain reinsurance agreements, whereby assets are retained by the ceding insurer (such as funds withheld or modified coinsurance) and a return is paid based on the performance of underlying investments, that the liabilities for these reinsurance arrangements must be adjusted to reflect the fair value of the invested assets. NAIC SAP does not contain a similar requirement;
- Investments in subsidiaries, controlled and other affiliated entities as defined in Statements of Statutory Accounting Principles ("SSAP") No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities" ("SCAs"), including partnerships, limited liability companies and joint ventures, are accounted for under the equity method. Under the equity method, domestic insurance subsidiaries are recorded at their underlying audited statutory surplus. Non-public non-insurance subsidiaries and other controlled entities are recorded at their underlying audited GAAP equity. Foreign insurance subsidiaries are recorded at their underlying audited GAAP equity with certain adjustments. In the absence of an admissible audit, the entire investment is non-admitted. Changes in the value of such investments are recorded as unrealized gains or losses. The earnings of such investments are recorded in net investment income only when dividends are declared. Under U.S. GAAP, these investments are consolidated;
- Investments in non-controlled partnerships and limited liability companies are accounted for under the equity method for both NAIC SAP and U.S. GAAP. Under SAP, undistributed income and capital gains and losses for these investments are reported in surplus as unrealized gains or losses, whereas under U.S. GAAP, in many cases, for investment companies, unrealized gains and losses are included in net investment income.
- Investments in bonds are generally carried at amortized cost or values as prescribed by NAIC SAP and state insurance law, whereas under U.S. GAAP, investments in bonds that are classified as available for sale or trading are carried at fair value, with changes in fair value of bonds classified as available for sale reflected in equity, and changes in fair value of bonds classified as trading reflected in earnings;

- An asset valuation reserve ("AVR") based on a formula prescribed by the NAIC is established as a liability to offset potential non-interest related investment losses. Changes in the AVR are recorded directly to surplus, whereas under U.S. GAAP, no AVR is recognized;
- Realized gains and losses resulting from changes in interest rates are deferred in the interest maintenance reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas under U.S. GAAP, the gains and losses are recognized in income at the time of sale;
- Corporate securities deemed to be other-than-temporarily impaired are written down to fair value, whereas under U.S. GAAP, if certain conditions are met, credit impairments on corporate securities are recorded based on the net present value of future cash flows expected to be collected, discounted at the current book yield. Also, if certain conditions are met, the non-credit portion of the impairment on a loan-backed or structured security is not accounted for whereas under U.S. GAAP, if certain conditions are met, the non-credit portion of the impairment on a debt security is recorded through other comprehensive income. A non-credit loss exists when the fair value of a security is less than the present value of projected future cash flows expected to be collected;
- Deferred income taxes exclude state income taxes and are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus, whereas under U.S. GAAP, deferred income taxes include federal and state income taxes and changes in deferred taxes are reflected in either earnings or other comprehensive income;
- Tax loss contingency is required to be established if it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. If a loss contingency is greater than 50 percent of the tax benefit associated with a tax position, the loss contingency is increased to 100 percent, whereas under U.S. GAAP the amount of the benefit for any uncertain tax position is the largest amount that is greater than 50 percent likely of being realized upon settlement;
- Certain assets, such as intangible assets, overfunded pension plan assets, furniture and equipment, and unsecured receivables are considered non-admitted and excluded from assets, whereas they are included in assets under U.S. GAAP subject to a valuation allowance, as appropriate;
- Goodwill held by an insurance company is admitted subject to a 10% limitation on surplus and amortized over the useful life of the goodwill, not to exceed 10 years, and goodwill held by non-insurance subsidiaries is assessed in accordance with U.S. GAAP, subject to certain limitations for holding companies and foreign insurance subsidiaries. Under U.S. GAAP, goodwill is considered to have an indefinite useful life and is tested for impairment. Losses are recorded, only when goodwill is deemed impaired;
- Fair value is required to be used in the determination of the expected return on the plan assets component of the net periodic benefit cost of pension and other postretirement obligations,

whereas under U.S. GAAP, the market related value of plan assets is used. The market-related value of plan assets can be either fair value or a calculated value that recognizes asset gains or losses over a period not to exceed five years;

- Surplus notes are included as a component of surplus, whereas under U.S. GAAP, they are presented as a liability;
- Contracts that contain an embedded derivative are not bifurcated between components and are accounted for consistent with the host contract, whereas under U.S. GAAP, either the contract is recorded at fair value with changes in the fair value included in earnings or the embedded derivative needs to be bifurcated from the host contract and accounted for separately;
- Certain derivative instruments under SAP are carried at amortized cost, whereas under U.S. GAAP, all derivative instruments are carried at fair value. Changes in the fair value of derivative instruments not carried at amortized cost under SAP are recorded as unrealized capital gains or losses and reported as changes in surplus, whereas under U.S. GAAP, these changes are generally reported through earnings unless they qualify and are designated for cash flow or net investment hedge accounting.