



Department of Veterans Affairs

Financial Policy

Volume VI

Liabilities

Chapter 9

Insurance Liabilities

Approved:

Jon J. Rychalski
1367389

Digitally signed by
Jon J. Rychalski
1367389
Date: 2020.08.12
20:18:19 -04'00'

Jon J. Rychalski
Assistant Secretary for Management
and Chief Financial Officer

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0901 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies and procedures covering life insurance programs and accounting for insurance liabilities, unearned premiums, and insurance dividends.

Key points covered in this chapter:

- VA provides life insurance benefits to give Servicemembers, Veterans, and their families peace of mind to provide financial security given the extraordinary risks involved in military service;
- VA will issue life insurance policies and may distribute dividends to policyholders;
- VA will recognize liabilities for unearned premiums, unpaid claims, net future policy benefit outflows, dividends payable, and related interest payable;
- VA will assess the contingency reserve for supervised life insurance programs and;
- VA will report its insurance liabilities, unearned premium, dividends, and related interest payable in accordance with Office of Management and Budget (OMB) Circular A-136 and SFFAS 51.

0902 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Appendix B	Updated Memo to the current VBA Delegation of Authority from USB to Executive Director, Insurance Service	VBA	VBA 2 year signed renewal added to Appendix B	August 2020
Overview	Contingency reserve monitoring policy	OFP (047G)	NFR, 19-16	July 2020
0903 Definitions	Addition of Contingency Reserve terminology to Definitions	OFP (047G)	NFR, 19-16	July 2020
0905 Policies	Addition of key points to address yearly assessment of contingency reserve	OFP (047G)	NFR, 19-16	July 2020
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	April 2018

Section	Revision	Office	Reason for Change	Effective Date
0901 Overview	Added key points and moved program overview to the policy section.	OFP (047G)	New format	April 2018
0904 Roles and Responsibilities	Removed and added roles	OFP (047G)	Properly reflect offices involved in the process.	April 2018
0905 Policies	Moved policy statements from Overview and Procedures section. Consolidated policy from Volume II, Chapter 2H, and Volume VI, Chapters 14-16.	OFP (047G)	Consolidate all life insurance policy into one section. Consolidate all life insurance policy into one chapter.	April 2018

0903 Definitions

Dividend Provision – Funds set aside for a future outflow of cash due to predicted payment of dividends.

Contingency Reserve – The amount of money insurer sets aside above the legal requirement to cover unexpected or unforeseen losses.

Insurance In-Force – The total face value of life insurance coverage provided by each VA-administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies.

Reserve Liabilities – The amount of an insurer’s liability to fulfill future contingencies and unpaid liabilities already incurred. VA will report the insurance reserves for administered programs as liabilities covered by budgetary resources, while part of the Servicemembers-Disabled Veterans Insurance program and Veterans Insurance and Indemnities reserves are reported as liabilities, not covered by budgetary resources.

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

0904 Roles and Responsibilities

The **Secretary of VA** has delegated to the VA Insurance Center (VAIC) the responsibility to determine the amount of surplus funds available for dividend payments on eligible VA-administered life insurance policies as well as authority to negotiate and sign amendments to Group policy between VA and the private insurer of the Servicemembers' Group Life Insurance and Veterans' Group Life Insurance programs. See Appendix B for Delegation of Authority memorandum.

VAIC administers six VA life insurance programs and supervises insurance programs administered by Prudential. The VAIC is responsible for:

- Ensuring premium collection;
- Processing policy actions (change of address, loans, cash surrenders, etc.)
- Paying death and disability claims;
- Providing toll-free telephone service;
- Financial management of the insurance programs;
- Ensuring the actuarial soundness of the life insurance programs;
- Evaluating performance of the insurance programs;
- Determining premiums and dividends;
- Determining policy values;
- Developing mortality and insurance experience studies;
- Preparing financial statements for VA life insurance programs; and
- Working with auditors assigned to provide an opinion on the Agency Financial Report.

0905 Policies

090501 Insurance Program

- A. The VA insurance programs are authorized under [38 U.S.C. Chapter 19, Veterans General Benefit, Insurance](#).
- B. VA Insurance Center (VAIC) under VBA will offer noncancelable and guaranteed renewable life insurance coverage to Veterans and Servicemembers through life insurance programs.
- C. VAIC will administer six life insurance programs:
 - [United States Government Life Insurance \(USGLI\)](#) is the Federal Government's first venture into life insurance. The program was established to meet the needs of World War I Veterans but remained open to Servicemembers and Veterans with Service prior to October 8, 1940. The Government became a self-insurer because private insurance companies were unwilling to assume the unpredictable risks associated with war. Congress intended to avoid the financial

burden imposed on the Government by the pension programs that had been established after previous wars. VA stopped issuing new policies in 1951.

- [National Service Life Insurance \(NSLI\)](#) covers policyholders who served during World War II. The program remained open until April 25, 1951.
- [Veterans Special Life Insurance \(VSLI\)](#) was established in 1951 to meet the insurance needs of Veterans who served during the Korean Conflict and the post-Korean period through January 1, 1957. The VSLI was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated.
- [Service-Disable Veterans Insurance \(S-DVI\)](#) was established in 1951 to meet the insurance needs of certain Veterans with service connected disabilities. It is available in a variety of permanent plans as well as term insurance. Policies are issued for a maximum face amount of \$10,000. Veterans' Insurance and Indemnities is an appropriation funding mechanism to subsidize S-DVI because it does not collect enough money to offset benefit payments.
- [Veterans Reopened Insurance \(VRI\)](#) was established in 1964 when Congress enacted legislation reopening NSLI and VSLI for one year. The coverage was open to disabled veterans under the same rules of NSLI and VSLI.
- [Veterans Mortgage Life Insurance \(VMLI\)](#) provides financial protection to cover eligible Veterans' home mortgages in the event of death. VMLI is also issued to severely disabled Veterans who have received grants for specially adapted housing from VA. The maximum amount of VMLI allowed an eligible Veteran is \$200,000. The insurance is payable if the Veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

D. VAIC will supervise life insurance programs administered by Prudential Insurance Company of America (Prudential) and its [Office of Servicemembers' Group Life Insurance \(OSGLI\)](#) (See Appendix A: Relationship With Prudential Insurance Company of America). The following supervised programs fall under the SGLI family of programs:

- [Servicemembers' Group Life Insurance \(SGLI\)](#) – Active Duty Servicemembers provides low-cost term life insurance coverage to eligible Servicemembers. If eligible, Servicemembers are automatically enrolled and issued the maximum SGLI coverage.
- SGLI – Ready Reservists generally covers Ready Reserve or National Guard members scheduled to perform at least 12 periods of inactive training per year and drilling for points, rather than pay.
- SGLI – Family (Spouse) provision under SGLI available for spouses of Servicemembers insured under SGLI. Premiums are automatically deducted from Servicemembers' pay until separation from service or opt out of coverage. The maximum amount of coverage is \$100,000.
- SGLI – Family (Children) provision under SGLI available for dependent children of Servicemembers insured under SGLI. Each dependent child of every active duty Servicemember or Reservist insured under SGLI is automatically insured for \$10,000 at no additional cost.

- [Traumatic Injury Protection \(TSGLI\)](#) provides automatic traumatic injury coverage to all Servicemembers covered under the SGLI program. It provides short-term financial assistance to severely injured Servicemembers and Veterans to assist them in their recovery from traumatic injuries. TSGLI provides insurance coverage for injuries occurring in combat or off duty.
 - [Veterans Group Life Insurance \(VGLI\)](#) provides renewable five-year term coverage after separation if premiums are paid. Veterans may enroll for a maximum amount of coverage that is equal to the amount of SGLI coverage when separated from service. Lesser amounts of coverage are also available in increments of \$10,000. Once enrolled in VGLI, Veterans can increase coverage by \$25,000 every five years up to the legislated maximum of \$400,000, until age 60. No proof of health status is required.
- E. VAIC will make payments to policyholders and beneficiaries as designated in the insurance policies.
- F. Annually VAIC actuarial staff will review the contingency reserve as part of the process of assessing the financial performance of the SGLI programs by:
- Setting an appropriate target level and establishing the range for the SGLI contingency reserve;
 - Assessing the occurrence of external factors or circumstances that may impact the SGLI programs;
 - Monitoring the SGLI contingency reserve balance to ensure that it is within targeted range and addressing excess or deficiency as needed;
 - Maintaining the contingency reserve balance within the targeted range, and addressing excess or deficiency by adjusting premium rates or transferring funds between the Contingency Reserve and the VA revolving fund; and
 - Informing VA Central Office ADAS for Financial Reporting and VBA Central Office DCFO Accounting Policy and Accounting Policy Reporting staff of planned transfers.
- G. The VA Insurance program investments are in non-marketable Treasury Special Bonds and Special Issue Treasury Certificates. For additional information on the investments in Treasury securities by VA life insurance programs see [Volume V, Chapter 5 – Investments](#).
- H. For information on insurance trust funds at VA refer to [Volume II, Chapter 2F – Funds From Dedicated Collections](#).
- I. VA will record and report in accordance with [SFFAS No. 51, Insurance Programs](#).

090502 Premium Collections

VAIC will ensure collection of premiums. Premiums may be made through direct payments, military retirement pay allotments, VA benefit deductions, personal checking account allotments, or annual dividend deductions.

- VA will allow advance payments.
- Premiums will be due on the anniversary date of the insurance policy.
- VA will allow the Veteran a grace period to pay a premium except for the first payment.
- VA will allow waiver of premium payments under certain conditions, per VBA Handbook 4580.

090503 Dividends

- A. VA will pay dividends only on certain VA-administered life insurance policies (USGLI, NSLI, VSLI, and VRI.)
- B. Policyholders may elect the following actions regarding dividends:
 - Receive a cash payment;
 - Prepay premiums;
 - Repay policy loans;
 - Purchase paid-up insurance; or
 - Deposit the amount in an interest-bearing account.
- C. VAIC will return a portion of the earnings from USGLI, NSLI, VSLI, and VRI, to policyholders in the form of dividends.
- D. VA will base dividends on an actuarial analysis of the individual programs at the end of the preceding year.
- E. VA will declare dividends on a calendar year basis and pay dividends on policy anniversary dates.
- F. VA will not pay dividends during months when premiums are not paid on term policies by the insured, due to lapse and reinstatement.
- G. VA records dividends left on deposit and the related interest payable in accordance with VA's SGL accounts. For detailed information on VA's insurance programs' financial operations refer to VBA Handbook 4580, Insurance Fund and Insurance Appropriation Accounting.

090504 Actuary Estimates and Recognition of Insurance Liabilities

- A. VAIC will use financial or actuary models to estimate insurance related liabilities. VA will recognize the unpaid claims liability for life insurance as well as a liability for net future policy benefit outflows.
1. The liability for future policy benefits represents the expected present value of future outflows to be paid to, or on behalf of, existing policyholders less the expected present value of future net premiums to be collected from those policyholders.
 2. The liability is estimated using appropriate financial or actuarial methods that include assumptions at the time the insurance contracts are made and in accordance with existing law and authoritative guidance.
- B. VA will base actuarial reserve liabilities for the life insurance programs on the mortality and interest assumptions at time of issue. These assumptions are reviewed annually and vary by fund, type of policy and type of benefit.
1. The interest and mortality assumptions will be periodically adjusted to reflect current experience as needed to ensure solvency.
 2. The impact of investment returns on the portfolio rate earned by the assets supporting program reserves will be reviewed annually to determine the appropriateness of the interest rate assumptions.
 3. Assumptions upon which the premium rates are based are contractually guaranteed by [38 U.S.C. §1902](#) and [38 U.S.C. §1904](#) for NSLI, [38 U.S.C. §1922](#) for S-DVI, [38 U.S.C. §1923](#) for VSLI, [38 U.S.C. §1925](#) for VRI, and [38 U.S.C. §1943](#) for USGLI.
- C. VA will not recognize an expense for changes in assumptions or the difference between current and prior year actuarial calculation of future benefit payments. VA will account for these transactions in accordance with SFFAS No. 51, which will be effective for periods beginning after September 30, 2018.

090505 Recording Insurance Liabilities

- A. VA will maintain unearned premium collection accounts in the accounting system of record and the insurance accounting system.
- B. VA will establish an unearned premium reserve based on an actuarial calculation of premiums paid in advance.
- C. VA will record unearned premiums as a liability in SGL Account 2313, Premiums Received in Advance. This is the liability account used in the interface to update the accounting system of record from the Veterans Benefit Administration system. VA

will record unearned premiums in accordance with the VA's SGL accounts described in Volume II, Chapter 1 – VA's Accounting Classification Structure.

- D. For VA administered and VA supervised insurance programs VA will measure its insurance liabilities for future policy benefits as the present value of future outflows to be paid to (or on behalf of) policyholders, less the present value of future related premiums.
 - 1. The policy cash surrender value amount is recorded as a future outflow to be paid.
 - 2. The liability for future policy benefits should be no less than the cash surrender value to the benefit of policyholders.
- E. VA will record dividends left on credit or deposit as a liability on the accounting system of record and insurance accounting system.
- F. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintaining the solvency of the insurance programs.

090506 Financial Reporting and Disclosure for Insurance Liabilities

- A. VA Financial Statements will disclose information on liabilities in all insurance programs in accordance with Office of Management and Budget Circular A-136 and SFFAS 51.
- B. The VAIC Actuarial Staff will utilize the information provided by Prudential's Statement of Annual Accounting, PwC annual audit, and the SGLI in-force reports to compile information necessary for VA's financial statement note related to life insurance programs.

0906 Authorities and References

[38 U.S.C. Chapter 19, Veterans' General Benefits, Insurance](#)

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

[SFFAS No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates](#)

[SFFAS 51, Insurance Programs](#)

[Financial Accounting Standards Board \(FASB\), Accounting Standards Codification, Volume I, General Principles \(Topic 105\), July 1, 2009¹](#)

[OMB Circular A-11, Preparation, Submission and Execution of the Budget](#)

[OMB Circular A-136, Financial Reporting Requirements](#)

[VBA Directive 4580, Insurance Fund and Insurance Appropriation Accounting](#)

[VBA Handbook 4580, Insurance Fund and Insurance Appropriation Accounting](#)

0907 Rescissions

Delegation of Authority Memorandum, April 2018

Volume II Chapter 2H – Life Insurance Programs, July 2013.

Volume VI, Chapter 14 – Unearned Premiums on Life Insurance, September 2010

Volume VI, Chapter 15 – Life Insurance Dividends and Related Interest, September 2010

Volume VI, Chapter 16 – Dividends Payable to Life Insurance Policyholders, September 2010

0908 Questions

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

VHA

[VHA 10A3A Accounting Policy](#)

VBA

[VAVBAWAS/CO/FINREP \(Outlook\)](#)

All Others

[OFP Accounting Policy \(Outlook\)](#)

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

Appendix A: Relationship with Prudential Insurance Company of America

VA has entered a group policy with Prudential Insurance Company of America (Prudential). Prudential and its reinsurers provide Servicemembers' and Veterans' coverage in multiples of \$50,000 up to a maximum of \$400,000. Premiums for the Servicemembers' Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) are set by agreement between VA and Prudential. The Defense Finance and Accounting Service collects premiums from Servicemembers' pay and remits collected premiums to VA. VA submits the premiums to Prudential, where they are used to pay benefits and other costs, with any balance invested to yield additional income. Title 38 of the United States Code requires life insurance programs invest in Treasury securities.

Prudential records the premiums and maintains investments in its accounting records, which are separate and independent from VA's reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in VA's reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. Reserves for the SGLI and the VGLI are recorded and maintained in Prudential's financial records since Prudential and its reinsurers assume the risk of loss. Prudential and its reinsurers provide over 99 percent of active life insurance coverage.

Appendix B: Delegation of Authority

Department of
Veterans Affairs

Memorandum

Date: July 7, 2020
From: Executive Director, Insurance Service (29)
To: Under Secretary for Benefits
Thru: Principal Deputy Under Secretary for Benefits
Subject: Renewal of Delegations of Authority from USB to Executive Director,
Insurance Service

1. **PURPOSE.** The purpose of this memorandum is to request authority for the Executive Director of the Insurance Service to perform specific functions relating to the Government life insurance programs that are administered or supervised by VA. These functions are:
 - a. The authority to declare and issue dividends on government life insurance policies when determined to be actuarially appropriate; and
 - b. The authority to negotiate and sign amendments to Group Policy G-32000 between the Department and the private insurer of the Servicemembers' Group Life Insurance and Veterans' Group Life Insurance programs which pertain to administrative matters not addressed in 38 U.S.C. Chapter 19.
2. **AUTHORITY.** The authority to manage the VA Insurance programs is mandated by 38 U.S.C. Chapter 19. The authority to execute these functions resides with the Secretary and is delegated to the Under Secretary. Delegation authority is allowed per title 38, U.S.C. § 512.
3. **RESTRICTIONS.** None
4. **RE-DELEGATION.** This authority may only be re-delegated to the Executive Director of the Insurance Service. No further re-delegation is authorized.
5. **EFFECTIVE DATE.** This delegation of authority is in effect on the date of signing and is to be renewed every two years.

If you have questions, please contact Maryann Stupka at (215) 842-2000, ext. 4296.

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Daniel J. Keenaghan

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Subj: Renewal of Delegations of Authority from USB to Executive Director of Insurance Service

Concur/ Non-concur

JUANA M. DEVLIN
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DEVLIN 113085
Date: 2020.07.10 11:59:09 -04'00'

Principal Deputy Under Secretary for Benefits

Approve Disapprove



Under Secretary for Benefits