Financial Policy

Volume VI

Liabilities

Chapter 9

Insurance Liabilities

Approved:
Jon J. Rychalski
1367389
Digitally signed by
Jon J. Rychalski
Date: 2022.03.16
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Jon J. Rychalski
Assistant Secretary for Management
and Chief Financial Officer
0901 Overview

This chapter establishes the Department of Veterans Affairs’ (VA) financial policies covering life insurance programs and accounting for insurance liabilities. The Department of Veterans Affairs’ Insurance Service provides high value universally available life insurance to Veterans, Servicemembers, and their families at reasonable amounts and competitive premium rates, as well as traumatic injury protection insurance for Servicemembers.

Key points covered in this chapter:
• VA provided Individual and Group Policy life insurance benefits;
• 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;
• Annually, VA will assess the contingency reserve for supervised life insurance programs; and
• VA will report insurance liabilities (e.g., unearned premiums, dividends, and related interest payable) in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and the Statement of Federal Financial Accounting Standards (SFFAS) 51, Insurance Programs.

0902 Revisions

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<td>Various</td>
<td>Completed comprehensive five-year review and update</td>
<td>OFP (047G)</td>
<td>Ensure policy is up to date with current laws and regulations and accurate</td>
<td>March 2022</td>
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<td>0903 Definitions</td>
<td>Updated for clarity of understanding</td>
<td>OFP (047G)</td>
<td>Improve effectiveness and clarity of the policy</td>
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<td>0904 Roles and Responsibilities</td>
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<td>OFP (047G)</td>
<td>Authorizes Veterans’ Mortgage Life Insurance benefits for disabled Veterans</td>
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<td>Added updated Standard Operating Procedures (SOP) for Monitoring of SGLI Contingency Reserve</td>
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<td>Various</td>
<td>Reformatted to new policy format and completed 5-year review</td>
<td>OFP (047G)</td>
<td>Reorganized chapter layout</td>
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<td>0901 Overview</td>
<td>Added key points and moved program overview to the policy section</td>
<td>OFP (047G)</td>
<td>New format</td>
<td>April 2018</td>
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<td>0904 Roles and Responsibilities</td>
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<td>OFP (047G)</td>
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<td>OFP (047G)</td>
<td>Consolidate all life insurance policy into one section. Consolidate all life insurance policy into one chapter.</td>
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0903 Definitions

Cash Surrender Value – The portion of premiums paid or other amount recoverable on an insurance policy that is owed to the policyholder if the policy is canceled.

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

Dividend – A refund of excess premium, paid to the owner of an individual participating life insurance policy, that is not needed to pay for the costs of death claims.

Insurance In-Force – The total face amount 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. The face amount of insurance from supervised programs constitutes over 99 percent of the face value in-force.

National Service Life Insurance (NSLI) – Covers policyholders who served during World War II. The program remained open until April 25, 1951.

Policyholder – The owner of the life insurance policy, whether issued by a supervised program administrator or a VA-administered program.

Premium – Amount paid by the policyholder to maintain coverage under a life insurance program policy.

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 Service-Disabled Veterans Insurance program and Veterans’ Mortgage Life Insurance (VMLI) program (which is part of the Veterans’ Insurance and Indemnities (VI&I) fund) reserves are reported as liabilities, not covered by budgetary resources.

Service-Disabled Veterans Insurance (S-DVI) – 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. Policyholders who are eligible for waiver of premiums may apply for up to $30,000 of supplemental coverage. Veterans’ Insurance and Indemnities is an appropriation funding mechanism to subsidize S-DVI because it does not collect enough money to offset benefit payments. New policies will no longer be issued in this program after December 31, 2022. Effective January 1, 2023, VA will implement a new insurance program for Veterans with service-connected disabilities, Veterans Affairs Life Insurance (VALI), which will offer up to $40,000 of guaranteed acceptance whole life coverage.
Supervised Insurance Program – Life insurance programs administered by Prudential and its reinsurers. The supervised programs include:

- Servicemembers’ Group Life Insurance (SGLI) – Provides low-cost term life insurance coverage to eligible active duty Servicemembers. If eligible, Servicemembers are automatically enrolled and issued the maximum SGLI coverage. Coverage can be extended for up to two years if the Servicemember is totally disabled at separation.

- 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 Servicemembers’ Group Life Insurance (FSGLI) (Spouse) 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, not to exceed eligible servicemembers coverage.

- SGLI – Family Servicemembers’ Group Life Insurance (FSGLI) (Children) 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.

Unearned Premium – An insurance premium which is paid beyond the current period but is not yet earned by the insurer. If the policy is cancelled, the insured should receive a refund of the unearned amount.

United States Government Life Insurance (USGLI) – 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.
Veterans Affairs Life Insurance (VALI) – Beginning January 1, 2023, VA will offer a new life insurance program. VALI has fixed premiums for life and offers guaranteed acceptance whole life coverage up to $40,000 for all service-connected Veterans age 80 and under with no medical underwriting and no time limit to apply.

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.

Veterans Reopened Insurance (VRI) – 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 Special Life Insurance (VSLI) – 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.

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.

Under Secretaries, Assistant Secretaries and other key officials are responsible for ensuring compliance with the policies set forth in this chapter.

VBA Insurance Center (VAIC) administers six VA life insurance programs and supervises insurance programs administered by Prudential. The VAIC is responsible for:

- Issuing new policies;
- 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 internal/external auditors tasked with evaluating insurance programs and/or policies.

**VBA, Accounting Policy and Reporting Division (APRD)** is responsible for performing VA’s nationwide monthly, quarterly, and annual reports for budget execution and financial status reporting for all insurance funds. Additionally, APRD is responsible for redeeming certificates of deposit with the Treasury to meet the expressed daily needs of the VAIC as well as investing excess funds identified by the VAIC with the Treasury.

**0905 Policies**

**090501 General Policies**

A. VA insurance programs are authorized under 38 U.S.C. Chapter 19, 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);
   • National Service Life Insurance (NSLI);
   • Veterans Special Life Insurance (VSLI);
   • Service-Disabled Veterans Insurance (S-DVI);
   • Veterans Reopened Insurance (VRI); and
   • Veterans Mortgage Life Insurance (VMLI).

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 insurance programs fall under the SGLI family of programs:
   • Servicemembers’ Group Life Insurance (SGLI);
   • SGLI – Ready Reservists;
   • SGLI – Family Servicemembers’ Group Life Insurance (FSGLI) (Spouse);
   • SGLI – Family Servicemembers’ Group Life Insurance (FSGLI) (Children);
   • Traumatic Injury Protection (TSGLI); and
   • Veterans Group Life Insurance (VGLI).
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. VAIC will:

1. Set an appropriate target level establishing the range for the SGLI contingency reserve balance;

2. Monitor the SGLI contingency reserve balance to ensure that it is within targeted range and address excess or deficiency as needed;

3. Maintain the contingency reserve balance within the targeted range, and address excess or deficiency by adjusting premium rates or transferring funds between the Contingency Reserve and the VA revolving fund;

4. Assess the occurrence of external factors or circumstances that may impact the SGLI programs; and

5. Inform the VBA Accounting Policy, VBA Accounting Policy Reporting Division, and the Associate Deputy Assistant Secretary (ADAS) for the Office of Financial Reporting (VA Central Office) of planned transfers.

6. Appendix C contains VAIC’s Standard Operating Procedures for monitoring the contingency reserve.

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. VA will record and report in accordance with SFFAS No. 51, Insurance Programs.

090502 Premium Collections

A. VAIC will ensure collection of premiums.

B. Premiums may be collected through direct payments, military retirement pay allotments, VA benefit deductions, personal checking account allotments, or annual dividend deductions.

C. VA will allow advance payments.

D. Premiums will be due on the anniversary date of the insurance policy.
E. VA will allow the Veteran a grace period to pay a premium except for the first payment.

F. 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 or apply toward a lien on the policy;
   - Purchase paid-up additional insurance (PUA);
   - Deposit the amount in an interest-bearing account; or
   - Utilize Net Cash, Net PUA, or Net Loan-Lien, through which the dividend is first applied to pay an annual premium and any remainder is applied to the second option.

C. VAIC will return a portion of the earnings from USGLI, NSLI, VSLI, and VRI, to policyholders in the form of dividends if actuarially feasible. The Executive Director, Insurance Service (as delegated) determines annually the excess funds available for dividend payment based on an actuarial analysis of each program’s claims and investment experience, compared to the mortality and interest assumptions utilized in that program at the end of the preceding calendar year.

D. VA will declare dividends on a calendar year basis and pay dividends on policy anniversary dates.

E. VA will not pay dividends during months when premiums are not paid on term policies by the insured, due to lapse and reinstatement.

F. VA records dividends left on deposit and the related interest payable in accordance with VA’s Standard General Ledger (SGL) accounts.

G. 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 actuarial models to estimate insurance related liabilities.
B. 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, such as estimates of expected investment yield, mortality, morbidity, terminations, and expenses at the time the insurance contracts are made and in accordance with existing law and authoritative guidance.

C. 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. §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.

D. VA will recognize an expense for changes in assumptions or the difference between current and prior year actuarial calculation of future benefit payments.

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 the general ledger. 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 insurance programs, VA will measure its insurance liabilities for future policy benefits as the expected present value of future claims to be paid to (or on behalf of) existing policyholders, less the expected present value of future net related premiums to be collected from those policyholders.

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. 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.

F. VA will account for insurance liabilities in accordance with SFFAS No. 51, Insurance Programs, which is effective for periods beginning after September 30, 2018.

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, Financial Reporting Requirements, and SFFAS 51, Insurance Programs.

B. The VAIC Actuarial Staff will utilize the information provided by Prudential's Statement of Annual Accounting, annual external 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, Insurance

38 U.S.C. § 2106 Veterans’ Mortgage Life 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

OMB Circular A-11, Preparation, Submission and Execution of the Budget

OMB Circular A-136, Financial Reporting Requirements

VA Financial Policy Volume V, Assets, Chapter 5 - Investments

VA Financial Policy Volume II, Appropriations, Funds, and Related Information, Chapter 2F- Funds from Dedicated Collections

VA Financial Policy Volume II, Appropriations, Funds, and Related Information, Chapter 1- VA’s Accounting Classification Structure

VBA Directive 4580, Insurance Fund and Insurance Appropriation Accounting

VBA Handbook 4580, Insurance Fund and Insurance Appropriation Accounting

0907 Rescissions

VA Financial Policy, Volume VI, Chapter 9 – Insurance Liabilities dated April 2018

0908 Questions

Questions concerning this financial policy should be directed to the following points of contact:

VBA
VAVBAWAS/CO/FINREP (Outlook)

VBA
VAVBAWAS/CO/OPERATIONS (Outlook)

All Others
OFP Accounting Policy (Outlook)
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 (DFAS) 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 excess funds being held by Prudential as a contingency reserve to the extent necessary to provide for adverse fluctuations in future charges under the policy. Funds in excess of amounts needed for the contingency reserve are deposited to a revolving fund in the U.S. Treasury, where they may be invested in special interest-bearing obligations of the United States.

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

Memorandum

Department of Veterans Affairs

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.

[Signature]
Daniel J. Keenaghan

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Date: 2020.07.08 10:26:44 -04'00'
Page 2

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

Concur/Non-concur

JUANA M. DEVLIN
113085

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Date: 2020.07.10 11:59:09 -04'00'

Principal Deputy Under Secretary for Benefits

Approval/Disapprove

Under Secretary for Benefits
Appendix C: SOP - Monitoring SGLI Contingency Reserve

Standard Operating Procedure – Monitoring the Servicemembers’ Group Life Insurance (SGLI)\(^1\) Contingency Reserve

1. **Purpose**
The purpose of this document is to provide detailed information on the process used by VA Insurance Service to monitor the Contingency Reserve balance for the Servicemembers’ Group Life Insurance (SGLI) programs, including the frequency, method, documentation of significant management decisions, process to request and transfer funds from Prudential, and accounting transactions involved.

2. **Scope**
This document will detail the following in relation to the SGLI Contingency Reserve: 1) process for monitoring, 2) frequency of monitoring, 3) determination of target level and established range, 4) options to address excess or deficient balance, 5) process to request and execute transfer of funds to or from Prudential, and 6) relevant statutes and sections of SGLI Group Policy No. G-32000 that govern the Contingency Reserve\(^2\).

3. **Process for Monitoring Contingency Reserve**
On a yearly basis, the Insurance Service Actuarial Staff will monitor the Contingency Reserve as part of the process of assessing the experience and financial operations of the SGLI programs. Upon completion of the assessment, the Chief of the Insurance Service Actuarial Staff will notify the Executive Director of the Insurance Service regarding the balance of the Contingency Reserve and whether any action needs to be taken. The following steps are employed to assess the balance of the SGLI Contingency Reserve:

1. **Set appropriate target level and establish range for the SGLI Contingency Reserve.**
   Insurance Service will establish a target range of between one-half and one full year of claims in the SGLI, Family SGLI, and Veterans’ Group Life Insurance (VGLI) programs, to provide margin for excess claims caused by an extraordinary or catastrophic non-military

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\(^1\) The SGLI family of programs includes SGLI, Family SGLI (FSGLI), and Veterans’ Group Life Insurance (VGLI). The Contingency Reserve is available for all programs.

\(^2\) See Appendix A for statutes and Group Policy sections governing the Contingency Reserve.
2. Monitor SGLI Contingency Reserve balance to ensure that it is within target range.
   Insurance Service monitors the Contingency Reserve balance primarily during their review
   of the Statement of Annual Accounting provided by Prudential, typically in mid-September,
   for the policy year ended the preceding June 30th. Insurance Service also monitors the
   balance of the Contingency Reserve as of December 31st upon receipt of the six-month
   SGLI Contingency Reserve Summary, for the July 1st through December 31st period, from
   Prudential.

3. Address excess or deficient Contingency Reserve balance as needed.
   Insurance Service will exercise one or both of the following mechanisms to maintain the
   Contingency Reserve balance within the target range:
   i. Adjust premium rates.
   ii. Initiate transfer of funds between the Contingency Reserve and the VA Revolving
      Fund.

4. Assess occurrence of external factors or circumstances having the potential to
   impact the SGLI programs.
   Prior to recommending any action regarding premium rate adjustments or fund transfers,
   Insurance Service will assess the national/global environment for current or impending
   extreme circumstances such as a depressed economy, volatile market conditions, natural
   disasters, pandemics, war/hostilities, political unrest, etc. If any such circumstances are
   present and are expected to have an adverse or unpredictable impact on the insured
   population and/or financial operations of the program, then Insurance Service may decide
to delay or forego action regarding the Contingency Reserve.

4. Process for Requesting and Executing Transfer of Funds from or to
   Prudential
   1) Insurance Service provides written notice to Prudential for the amount of funds to be
      transferred via an agreement signed by the Executive Director of the Insurance Service
      and the senior managing official for the Office of Servicemembers’ Group Life Insurance
      at Prudential.
   2) Insurance Service informs the appropriate VBA Central Office and VA Central Office
      entities of the planned transfer(s)
      • VACO, ADAS for Reporting and Director for Financial Reporting Service
      • VBA, VBA DCFO, Accounting Policy and Reporting Staff (APRS) Director, and
        Chief of Accounting
   3) Insurance Service ensures that an updated Fedwire form is provided to Treasury and
      that the necessary logistical information is provided to Prudential.
   4) Prudential (or Insurance Service) processes the payment through Fedwire.
   5) Insurance Service Accounting Staff verifies the receipt (or disbursement) in CARS
      Treasury system. Prudential confirms disbursement (or receipt) in their system.
   6) If the transfer is to the VA Revolving Fund, Insurance Service Accounting Staff
      reclassifies the money in CARS.
7) In lieu of cash transfers, VA may choose to net excess funds against premiums payable to the insurer. Under this process, Insurance Service will withhold SGLI and F-SGLI premiums, rather than send them to Prudential, until the amount of excess funds is recouped.

8) The appropriate accounting entries are recorded by VBA/OFM/APRS and Insurance Service. (See Appendix B for accounting entries.)
   i. Insurance Service Accounting Staff creates a journal voucher and adjusts the Insurance General Ledger (IGL) system to record receipt or disbursement of the funds.
   ii. If funds received by VA: Insurance Service Accounting Staff sends a Transfer of Disbursing Authority (TDA) to the Veterans Benefits Administration, Accounting Policy and Reporting Division (APRD), and records transaction in the IGL.
   iii. APRD will invest funds received by VA in Treasury securities for the VA Revolving Fund. APRD will redeem securities if funds need to be sent to Prudential.

   > When APRS is notified by the Insurance Service Actuarial Staff that a collection has occurred and confirmation of funds received is performed, via CARs (Treasury system), the funds are immediately invested in a 6-month special U.S. Security via the Fed Invest application (Treasury). The accounting entry is entered in IGL and the resulting FMS transaction is below:

   USGL Account Transactions Reference 5379 - to record the purchase of federal securities acquired at par value
<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1610</td>
<td>Investments in U.S. Treasury Securities</td>
<td>$3.3B</td>
<td></td>
</tr>
</tbody>
</table>
<pre><code> |          | Issued by the Bureau of the Fiscal Service  |         |        |
</code></pre>
<p>| 1010     | Fund Balance with Treasury                  |         | $0.3B  |</p>

   > In the event a redemption of funds is needed, the Insurance Service Accounting Staff would notify APRS, and at that time APRS would redeem the requested amount via the Fed Invest application to make the funds available for return. A TDA document would be prepared by the VBA CFO for approval of the redemption.

Insurance Service (29)
Insurance Service Actuarial Staff
Insurance Service Budget & Risk Management Staff
CC: 290, VBA CO, OM, OFF, Prudential

Standard Operating Procedure (SOP)
(Manutenring the SGLI Continuity Reserve)
Appendix A
Statutes and Group Policy Sections Governing Contingency Reserve

Statutory Authority for Contingency Reserve and VA Revolving Fund
Under the authority of title 38, VA has purchased a Group Policy from the Prudential Insurance Company of America to administer the SGLI/VGLI programs. VA maintains oversight responsibility for these programs. 38 U.S.C. §1971(e) requires the primary insurer (Prudential) to hold the Contingency Reserve to account for adverse fluctuation in future charges under the Policy. A depletion of the Contingency Reserve would trigger reinsurance coverage in the event of a non-military catastrophe. Upon reaching an amount that VA deems adequate to account for future fluctuations, the law requires VA to move any excess amount held in the Contingency Reserve to the VA Revolving Fund.

38 U.S.C. § 1969(d)(1) requires establishment of a Revolving Fund to serve as a “pass through” for SGLI premium payments and extra hazard payments from the Uniformed Services to the primary insurer. Extra hazards represent the reimbursement VA seeks from the Uniformed Services to cover the costs of claims that are in excess of the peacetime mortality level under 38 U.S.C. §1969(b). Both types of payments move from the Uniformed Services to the Revolving Fund and then are forwarded to the primary insurer for investment to support the Program. This fund is maintained by the Department of Treasury and is invested in special interest-bearing obligations of the United States as provided for in 38 U.S.C. 1969(d)(2). Any SGLI Program funds not held by the primary insurer are held in the Revolving Fund.

38 U.S.C. § 1977(f) applies the provisions of the Contingency Reserve and the Revolving Fund to VGLI. For SGLI and VGLI, the primary insurer would hold an amount sufficient to account for claims and administrative costs while the group policy is in effect. Consequently, Prudential holds the Contingency Reserve to provide a margin for adverse fluctuations in claims under the Group Policy in addition to all other reserves deemed necessary to pay claims and cover Prudential’s costs to administer the program.

SGLI Group Policy References to Contingency Reserve Balance
Article I, Section 7 of the Group Policy addresses financial disclosure requirements regarding annual accounting and the Contingency Reserve. This section:
1. Specifies that Prudential will provide a statement of accounting to VA not later than ninety days after the end of each policy year, which details the income and expense items for the policy year financial operations of the SGLI, Family SGLI and VGLI programs and the impact on the Contingency Reserve.
2. Stipulates the steps that should be undertaken by VA and Prudential if and when the Secretary determines that the Contingency Reserve has attained an amount estimated to make satisfactory provision for adverse fluctuations in future charges under the Group Policy.
3. Allows for excess funds to be netted against SGLI and FSGLI premiums payable to the insurer in lieu of cash transfers from Prudential to VA.
Appendix B
Accounting Entries for Transfer of Contingency Reserve Funds

Transfer of Funds from Prudential to VA
- To record receivable for excess contingency reserve funds to be transferred from Prudential

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1310</td>
<td>Accounts Receivable</td>
<td>xxxx</td>
<td></td>
</tr>
<tr>
<td>5900</td>
<td>Other Revenue - Exchange Revenue without Associated Costs</td>
<td>xxxx</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Other Financing Sources on Statement of Changes in Net Position (line 22 on the SCNP Crosswalk)</td>
<td>xxxx</td>
<td></td>
</tr>
</tbody>
</table>

- To record the anticipated receipt

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4050</td>
<td>Anticipated Collections From Non-Federal Sources</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>4450</td>
<td>Unappropriated Authority</td>
<td>xxx</td>
<td></td>
</tr>
</tbody>
</table>

- To post collection

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>Fund Balance with Treasury</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1310</td>
<td>Accounts Receivable</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>4200</td>
<td>Other Actual Business Type Collections from Non-Federal Sources</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>4060</td>
<td>Anticipated Collections From Non-Federal Sources</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

After the funds are received, they are invested in special U.S. Treasury Securities at Par Value.

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1010</td>
<td>Fund Balance with Treasury</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

Standard Operating Procedure (SOP)
(Monitoring the GGLI Contingency Reserve)
**Transfer of Funds from VA to Prudential**

VA receives an SF-132 from OMB apportioning the funds for payment.  
**USSGL Account Transactions Reference A118** – To record budgetary authority apportioned by the Office of Management and Budget available for allotment.

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>445000</td>
<td>Unapportioned Authority</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>451000</td>
<td>Apportionments</td>
<td></td>
<td>xx</td>
</tr>
</tbody>
</table>

To make funds available, they are redeemed from special U.S. Treasury Securities at Par Value.  
**USSGL Account Transactions Reference B124** – Decrease to redeem Federal securities acquired at par value.

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>101000</td>
<td>Fund Balance with Treasury</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>161000</td>
<td>Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service</td>
<td></td>
<td>xx</td>
</tr>
</tbody>
</table>

- To record payment for contingency reserve funds to be transferred back to Prudential  
**USSGL Account Transactions Reference B107** – To record payment and disbursement of funds not previously accrued.

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>610000</td>
<td>Operating Expenses Program Costs</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>101000</td>
<td>Fund Balance with Treasury</td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>451000</td>
<td>Apportionments</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>490200</td>
<td>Delivered Orders - Obligations, Paid</td>
<td></td>
<td>xx</td>
</tr>
</tbody>
</table>
## Insurance General Ledger (IGL) Accounting Entries for Transfer of Contingency Reserve Funds

### Transfer of Funds from Prudential to VA

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1215.90</td>
<td>Receivables Established Current FY – Maintained Manually</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>3665.00</td>
<td>Excess Premiums Refunded by Insurer</td>
<td></td>
<td>xx</td>
</tr>
</tbody>
</table>

### To record collection:

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1012.00</td>
<td>Disbursing Authority</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1215.90</td>
<td>Receivables Established Current FY – Maintained Manually</td>
<td></td>
<td>xx</td>
</tr>
</tbody>
</table>

### To transfer funds received in payment of receivable to VACO:

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>6032.00</td>
<td>Disbursing Authority Advanced or Withdrawn by Central Office</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1012.00</td>
<td>Disbursing Authority</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

### To release funds for purchase of Treasury securities (VACO):

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Release (TT 31 00001) 1012.00</td>
<td>Disbursing Authority</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>6032.01</td>
<td>Disbursing Authority Advanced or Withdrawn by Central Office</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>Invest (TT 3330001) 1025.00</td>
<td>Investments in Treasury Certificates</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1012.13</td>
<td>Disbursing Authority</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>
### Transfer of Funds from VA to Prudential

To redeem investments and release funds for transfer (VACO):

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1012.41</td>
<td>Disbursing Authority - Receipts - Treasury Certificate Redemption (CO only)</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1025.00</td>
<td>Investments in Treasury Certificates</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>6032.01</td>
<td>Disbursing Authority Advanced or Withdrawn by Central Office</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1012.00</td>
<td>Disbursing Authority</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

To record disbursement to Prudential (Phila.):

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4468.00</td>
<td>Insurance Premium Payments to Insurer - Servicemen’s Withholding</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>1012.08</td>
<td>Disbursing Authority - Disbursements and Collections Processed as Repayments</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>