1401 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures relating to unearned premiums for Veterans’ life insurance programs\(^1\). VA’s insurance programs were developed to provide insurance benefits for Veterans and servicemembers who may not be able to get insurance from private companies because of the extra risks involved in military service or a service-connected disability. Unearned insurance premiums refer to the amount of an insurance premium that is paid in advance with the advance payment not being earned by the insurer.

Financial and reporting activities of VA insurance programs are handled primarily through the VA Regional Office and Insurance Center (VAROIC), located in Philadelphia, PA, except for certain investing, reporting and reconciling activities that are performed by the Veterans Benefits Administration (VBA) in VA Central Office. VA administers the following six life insurance programs:

- United States Government Life Insurance (USGLI)
- National Service Life Insurance (NSLI)
- Veterans’ Special Life Insurance (VSLI)
- Veterans’ Reopened Life Insurance (VRI)
- Service-Disabled Veterans Insurance (SDVI)
- Veterans’ Mortgage Life Insurance (VMLI).

Two major insurance programs, Servicemembers’ Group Life Insurance (SGLI) and Veterans’ Group Life Insurance (VGLI), are administered by the VAROIC. These programs are administered by Prudential Insurance Company of America (Prudential) under the terms of a group insurance contract between VA and Prudential.

140101 COLLECTING INSURANCE PREMIUMS. VA will collect insurance premiums from Veterans through various methods. Advance payments will be allowed and the Veteran may choose the extent of advance payments that he or she desires to make. VA will generally collect premiums on the insurance policy’s anniversary date; however, a grace period may be allowed, and under certain conditions, a Veteran may request a waiver of premium payments.

140102 ACCOUNTING AND FINANCIAL REPORTING AND DISCLOSURE FOR UNEARNED PREMIUMS. VA will record amounts received for unearned insurance premiums in a VA Standard General Ledger (SGL) liability account to reflect the advanced premium payments in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Assets and Selected Liabilities* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. VA will report and/or disclose unearned insurance premiums in the financial statements, as prescribed

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\(^1\) Refer to Volume II, Chapter 2H, *Life Insurance Program*, for additional information on life insurance program policies.
by OMB Circular A-136, *Financial Reporting Requirements*. Unearned premiums will be reported in financial statements with related disclosure.

**1402 POLICIES**

140201 COLLECTING INSURANCE PREMIUMS. VA will collect insurance premiums through direct payments, military retirement pay allotments, VA benefit deductions, personal checking account allotments or annual dividend deductions. Advance payments will be allowed on a quarterly, semiannual, or annual basis or as far in advance as the insured Veteran desires. Premiums are generally due on the anniversary date of the insurance policy. VA will allow the Veteran a grace period to pay a premium with the exception of the first payment. The Veteran may request a waiver of premium payments under certain conditions.²

140202 ACCOUNTING AND FINANCIAL REPORTING AND DISCLOSURE FOR UNEARNED PREMIUMS.

A. VA will maintain unearned premium collections accounts in the financial accounting and insurance accounting systems. On a monthly basis, VBA will prepare a summary of deductions from benefit payments for insurance purposes and this summary data for premium collections as well as accruals will be interfaced into the VA accounting system. VA’s Insurance actuarial staff will calculate an estimate for the amount of premiums paid less than one month in advance and will establish an Unearned Premium Reserve. Any premiums paid one month or more in advance will be recorded as "Unearned Premiums" and categorized as Premiums Paid in Advance.

B. VA will report unearned premiums as Public Insurance Liabilities on the face of the Consolidated Balance Sheet. VA will include the specific amount of unearned premiums in Note 16.

**1403 AUTHORITY AND REFERENCES**

140301 Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities

140302 SFFAS No. 5, Accounting for Liabilities of the Federal Government


140304 VBA Directive 4580, Insurance Fund and Insurance Appropriation Accounting

² Refer to VA’s Publication “VA Life Insurance Programs for Veterans and Servicemembers,” issued in January 2010, for additional information on premium collections. This publication is listed as 140306 in the Authority and References Section.
140305 VBA Handbook 4580, Insurance Fund and Insurance Appropriation Accounting

140306 VA Life Insurance Programs for Veterans and Servicemembers

140307 Volume 1, Chapter 2, United States Standard General Ledger

1404 ROLES AND RESPONSIBILITIES

140401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department’s programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA’s financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

140402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Finance Officers, Chiefs of Finance Activities, Fiscal Officials, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

140403 The Department of Veterans Affairs Regional Office and Insurance Center (VAROIC) in Philadelphia manages the Government’s life insurance programs. For the six insurance programs administered directly by VA, the VAROIC is responsible for:

- Collecting premiums;
- Processing policy actions (change of address, loans, cash surrenders, etc.);
- Paying death and disability claims;
- Providing toll-free telephone service;
- Performing all actuarial functions;
- Formulating policy, plans and procedures; and
- Evaluating performance of the insurance programs.

140404 The VA Insurance Actuarial Staff is located at the Insurance Center in Philadelphia and is responsible for the financial management and actuarial soundness of the life insurance programs administered by the VAROIC. Among the staff’s responsibilities are the determination of premiums and dividends, determining policy values, developing mortality and insurance experience studies, setting appropriate reserve levels and financial reporting. The Actuarial Staff is also responsible for the evaluation of the financial impact of legislative proposals that will affect the life insurance programs. The Actuarial Staff is responsible for preparing financial statements for each of the VA life insurance programs and working with the independent auditors assigned to certify the annual CFO financial statements.
1405 PROCEDURES

140501 COLLECTING INSURANCE PREMIUMS. VA will collect insurance premiums using the following methods:

- Check or money order payable to the Department of Veterans Affairs;
- Allotment from military retirement pay;
- Deduction from VA benefits (if they are receiving VA pension or compensation);
- E-check (deduction from a checking or savings account); or
- Applying annual dividends to automatically pay premiums.

1. VA will collect advance premium payments quarterly, semiannually, annually or as far in advance as the insured wishes.

   a. Premiums are due the same day of the month as the policy effective date as shown on the insurance policy, also called the “anniversary date.” For example, if the policy was effective on the first day of the month, premiums are due on the first day of the month. For a month not having a date corresponding to the effective date of a policy (i.e., 29th, 30th or 31st), the due date is the last day of the month.

   b. VA will allow the insured Veterans a grace period of 31 days (after the due date) to pay a premium, except the first one. If the insured Veteran dies during the grace period, the unpaid premium will be deducted from the amount payable to the beneficiary.

2. VA will include a waiver of premiums provision, at no extra cost, on the following policies:

   - NSLI;
   - USGLI (except endowment at age 96);
   - VSLI;
   - VRI; and
   - S-DVI policies (except supplemental S-DVI coverage).

3. To qualify for a waiver of premiums:

   - The insured must be totally disabled; this means they have a mental or physical disability that prevents them from engaging in substantially gainful employment.

   - The total disability must begin before the insured’s 65th birthday and must continue for at least six consecutive months.

   - The total disability may not begin prior to the effective date of the policy.

   (Exception: waiver may be granted if total disability commenced prior to the effective

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3 Waivers usually amount to 10 percent of policyholders.
date only on S-DVI policies, provided the total disability is due to a service-connected disability.)

140502 ACCOUNTING AND FINANCIAL REPORTING AND DISCLOSURE FOR UNEARNED PREMIUMS.

A. VA maintains unearned premium collections (from advance payments) accounts in its financial accounting system, maintained by the Financial Services Center (FSC) and the insurance accounting system, maintained by VAROIC.

1. 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 FMS from the Veterans Benefits Administration system. VA will record unearned premiums in accordance with the VA’s SGL accounts described in Volume 1, Chapter 2, United States Standard General Ledger.

2. VBA will prepare monthly summaries, using VAF 9-5700, of deductions from benefit payments for insurance purposes and the VBA benefit system will forward the information to the VAROIC for payment of premiums. Upon receipt of the information, the VAROIC will make the appropriate journal entries into the Insurance accounting system.

3. All deductions withheld for insurance purposes will be initially deposited to the NSLI Fund (V) as undistributed. The application of the undistributed amounts from the NSLI fund to the proper fund(s) is accomplished by the ADP system. The VAF 9-5700 will be used as a supporting document for the preparation of an SF 1081 to accomplish the transfer between funds. For details on the transfer of funds process, refer to VBA Handbook 4580.

4. On a monthly basis, the summary data for premium collections as well as accruals will be interfaced into the VA accounting system (FMS). Any premiums received and credited to the Insurance premium account, but not yet due as of the end of the reporting cycle, are considered to be unearned. Insurance actuarial staff calculates an estimate for the amount of premiums paid less than one month in advance and establishes an Unearned Premium Reserve. Premiums paid one month or more in advance are recorded as "Unearned Premiums" and are categorized as Premiums Paid in Advance.

B. VA will report unearned premiums as “Public Insurance Liabilities” and include the specific amount of unearned premiums in Note 16 to the quarterly and annual financial statements.

1406 DEFINITIONS

140601 Liability. A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability can represent assets owed for goods received,
services received, assets acquired, construction performed (regardless of whether invoices have been received), amounts received but not yet earned or other expenses incurred but not paid.

140602 Life Insurance. Life insurance provides protection against financial loss resulting from death. In exchange for timely payment of premiums, it is an insurance company’s promise to pay a beneficiary a specific amount of money when an insured dies.

140603 Premium. The payment to the insurance company for life insurance coverage.

140604 Public Liabilities. A claim against VA arising from transactions with non-Federal entities.

140605 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.

1407 RESCISSIONS

None required.

1408 QUESTIONS

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

<table>
<thead>
<tr>
<th>Department</th>
<th>Contact Information</th>
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</thead>
<tbody>
<tr>
<td>VHA</td>
<td>VHA Accounting Policy (Outlook)</td>
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<tr>
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<td>VAVBAWAS/CO/FINREP (Outlook)</td>
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<tr>
<td>All Others</td>
<td>OFP Accounting Policy (Outlook)</td>
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