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Accounting for key-person life insurance; Issues paper (1984 October 31)

American Institute of Certified Public Accountants. Corporate-owned Life Insurance Task Force

FILE 3130
OCTOBER 31, 1984

ISSUES PAPER

ACCOUNTING FOR KEY-PERSON LIFE INSURANCE

PREPARED BY THE
INSURANCE COMPANIES COMMITTEE AND
CORPORATE-OWNED LIFE INSURANCE TASK FORCE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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AICPA

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File Ref. No. 3130

October 31, 1984

J.T. Ball
Financial Accounting Standards Board
High Ridge Park
Box 3821
Stamford, CT 06905

Dear J.T.:

Accounting for Key-Person Life Insurance

Enclosed for the FASB's consideration is an issues paper, "Accounting for Key-Person Life Insurance," prepared by the Corporate--Owned Life Insurance Task Force of the AICPA Insurance Companies Committee.

The issues paper discusses various methods of accounting for the cost of key-person life insurance. The paper also discusses a proposed method of accounting for key-person life insurance purchased to fund deferred compensation or other post-employment benefits. AcSEC's advisory conclusions on the issues are in paragraphs 93 through 96 of the paper, and the views of the Insurance Companies Committee and its task force are also described.

Current practices in accounting for key-person life insurance are diverse. Because of this diversity, AcSEC recommends that the FASB consider this matter.

Representatives of the Accounting Standards Division are available to discuss the issues in this paper with members of the Board or its staff at your convenience.

Sincerely,

Roger Cason

Roger Cason
Chairman
Accounting Standards
Executive Committee

Accounting for Key-Person Life Insurance

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ISSUES PAPER

ACCOUNTING FOR KEY-PERSON LIFE INSURANCE

1. The primary purpose of the traditional key-person life insurance policy is to provide protection to an entity in the event of the death of one of its key executives. The entity owns the policy, makes the premium payments, and designates itself as beneficiary. The proceeds provide compensation to the entity for the loss of the executive's services. At the entity's discretion, the proceeds may be used to attempt to replace the skills and abilities lost as a result of the executive's death or to prevent financial losses that might otherwise result from the disruption of the entity's operations. The entity owns the key-person life insurance policy during the period of insurance coverage and can surrender it for its cash value at any time.

2. Generally, the type of life insurance for key-person indemnification depends on the purpose for which it is bought. If intended only for indemnification in the event of the key-person's death, some form of short-duration life insurance, such as term insurance, may suffice. Often, key-person life insurance is required by contract. It is used as a means of accumulating funds, for example, to finance shareholder buy/sell agreements in the event a principal shareholder dies or withdraws from the

business or to finance deferred compensation plans. If, in addition to the death protection, the entity wishes to accumulate funds for other purposes, the entity may select a policy that provides cash surrender value. Until recently, most key-person life insurance policies were not continued in force by the entity beyond termination of the executive's employment. Therefore, based on expected mortality, the face amount of the policy was rarely realized. Because of the business exchange rider now available on many long-duration life insurance policies and the use of such policies to informally fund post-employment benefits, many policies are now continued until death of the insured. Today, the following factors encourage continuation of key-person life insurance policies until the insured's death:

- The business exchange rider permits a policyholder to transfer a policy from one insured to the life of another insurable person without diluting the cash surrender value.
- High current investment yields credited to the policy create cash surrender value in excess of cumulative net premium payments in a relatively shorter period of time.
- Death benefits are tax-free, whereas upon termination of the policy, the excess of cash surrender value over cumulative net premium payments is taxed as ordinary income.
- Lower mortality and higher current investment yields permit more favorable insurance purchase rates and larger death benefits.
- Policy loans at interest rates below current market rates can be used to finance premium payments.

The Nature of Long-Duration Life Insurance

3. The key-person life insurance policies addressed in this issues paper are generally level-premium, long-duration insurance policies. These policies guarantee the payment of the face amount of the policy on the death of the insured, whenever that may occur, in return for periodic premiums of a constant amount. Long-duration policies are a complex product with many varying benefit features, including death benefits, cash surrender values, policy loans, other nonforfeiture benefits, policyholder dividends, settlement options, and special tax attributes. Because of this complexity, a number of different approaches have been used to analyze life insurance, and those different approaches have sometimes influenced arguments supporting various accounting treatments.

4. Long-duration life insurance could be obtained by paying a single premium. Level-premium policies, however, are designed to avoid the very high initial outlay that is needed for a single-premium policy. Under a level-premium policy, premiums in the early years exceed expected mortality costs, but in later years premiums may be less than expected mortality costs. (Appendix I, table 1 illustrates mortality costs.) Some have analyzed this by viewing the excess paid in the early years as a fund that grows to cover higher mortality costs in the later years. They view a long-duration life insurance policy as involving a combination of protection and savings (which accumulates a tax-free return if the policy is held to maturity) and have attempted to identify the portions of the premium that are allocated to current life insurance protection and to investment.

Some compare the premiums on long-duration life insurance to the amount that would be paid to purchase short-duration term insurance with the balance invested in alternative investments.

5. Others believe that life insurance is not divisible into protection and investment elements. They view level-premium insurance as an installment purchase of the death protection. Long-duration life insurance provides protection regardless of the age of the insured and cannot be duplicated by short-duration insurance and investment. Once the insured reaches an advanced age, short-duration insurance is very costly and may be unobtainable. Many believe that although its investment aspects have sometimes been stressed, long-duration life insurance is designed primarily to provide death protection.

6. These various approaches may be helpful in understanding life insurance. However, it probably cannot be said that one approach necessarily gives a true or a complete picture to the exclusion of the others.

Nonforfeiture Benefit Features

7. Key-person life insurance policies have evolved into sophisticated contracts. However, they all have similar major characteristics in that the entity is both an owner and beneficiary of the policy. The primary benefit feature of life insurance is, of course, the death benefit. However, long-duration key-person insurance policies, such as whole life, endowment, paid-up-at age 65, and certain extended period term insurance policies, provide nonforfeiture benefit options in the event that the policyholder ceases to pay premiums. Those nonforfeiture benefits

include cash surrender value, loan value, extended term insurance benefits, and reduced paid-up insurance benefits.

8. Cash surrender value. The cash surrender value of a life insurance policy is the net amount the policyholder will receive if the insurance coverage is terminated.

9. Under a level-premium policy, premiums in early years generally exceed expected mortality costs. However, in the first year of a policy, the insurance company usually experiences a net cash outflow due to its high first-year policy acquisition costs. The insurance company expects to recover these costs through future premiums. If policyholders who terminate their policies were allowed to withdraw significant amounts before policy acquisition costs are recovered, those costs would be borne by the continuing policyholders. Therefore, in the early years of a policy, cash surrender values are relatively low.

10. Cash surrender values can vary considerably from one type of policy to another. Cash surrender value is based on factors such as premium rates, expenses, anticipated surrenders, competition, statutory requirements, and the company's view of equitable treatment of its policyholders. Various state statutes, called nonforfeiture laws, define minimum surrender values for policies, but companies are permitted to and often do, provide higher cash surrender values.

11. Loan value benefit. The loan value benefit permits the policyholder to borrow up to a stipulated percentage of the current cash surrender value of the policy. Interest rates on

such loans may be fixed or may vary in accordance with the policy provisions, and historically they have been below market interest rates. Unlike other types of borrowing, no loan application is required, no restrictive covenants are imposed on the borrower, and the policyholder may repay the loan and the accumulated interest in whole or in part at any time. Normally, on death or termination of the policy, the unpaid loan balance plus the accumulated interest will be deducted from the death proceeds or cash surrender value. Because of this right of offset, in accounting for key-person life insurance the asset for the investment in life insurance is reported net of policy loans and accumulated interest. Some insurers offer, for an additional premium, additional life insurance for the amount of the unpaid loan. Interest paid or accrued on policy loans, subject to certain limitations, is generally deductible in the same manner as the taxpayer's other interest expense.

12. Reduced paid-up insurance benefit. Under the reduced paid-up benefit option, the cash surrender value of the policy is used as a single net premium to purchase paid-up insurance for as large an amount as the cash value will purchase. No further premiums will be payable.

13. Extended term insurance benefit. Under the extended term insurance option, the cash surrender value is also used as a single net premium. It is used to purchase term insurance in the amount of the death benefit currently available under the policy for as long a term as the single premium will provide or for the remaining term of the policy, if shorter. No further premium will be payable.

Policyholder Dividends

14. Many types of traditional policies are participating policies, which pay policyholder dividends. Future dividends are frequently projected based on the current dividend illustrations or "scales" published by the insurance company. Although dividends are not guaranteed, experience has shown that most insurance companies have been able to attain or exceed their projected dividend scales during the last several decades. The policyholder can elect to have these nonguaranteed benefits used to reduce current premiums, used to purchase additional amounts of life insurance at premium rates specified under the policy, left on deposit to earn additional interest, or paid in cash. If paid-up additional life insurance is elected, the paid-up additions normally have an immediate cash surrender value.

New Types of Policies

15. Policies and policy riders can be structured to meet the needs of the policyholder and the insured. Several new types of life insurance policies have become popular in recent years, including flexible-premium universal life, fixed premium universal life, variable life, adjustable life, and nonguaranteed-premium policies.

16. Flexible-premium universal life insurance. Under flexible premium universal life insurance plans, premiums paid by the policyholder (less certain expense charges) are credited to a fund from which the cost of annual renewable term life insurance

is deducted (the mortality charge) and to which interest is credited. The balance of the fund represents the cash surrender value of the policy. The interest credited to the policyholder's fund or cash value is generally based on a guaranteed minimum rate (3 to 5 percent) plus additional ("excess") interest at rates determined by the insurance company. The excess is frequently based on current and expected investment experience or an index such as U.S. Treasury bill rates. The policy's cash value is thus directly related to changes in interest rates, premium and benefit levels, and the periodic mortality charge.

17. Unlike traditional life insurance that requires the payment of a stated premium for a fixed amount of coverage, the policyholder can usually change the amount of coverage and the amount and timing of premium payments. The policy will remain in force as long as the cash value is sufficient to permit deductions for the cost of insurance and expense charges. A flexible--premium universal life policyholder can usually choose, subject to certain limits, either a specific amount of (a) death benefit, and insurance is purchased for the difference between the death benefit and the accumulated cash value, or (b) insurance coverage, and the death benefit equals the amount of that coverage plus the accumulated cash value.

18. Fixed-premium universal life insurance. Under the fixed--premium form of universal life insurance the premium cannot be changed by the policyholder nor can the face amount of the insurance coverage be changed except by a change in the dividend option or a change in the option for applying excess interest. Like

flexible-premium universal life, the expenses, mortality charges, and investment earnings credited to the policy are separately disclosed.

19. Adjustable life insurance. Adjustable life resembles flexible-premium universal life in that the policyholder can vary the face amount and/or the premium. However, it is also like traditional life insurance since the elements that make up the premium are not specified in the policy.

20. Variable life insurance. A variable life policy offers the policyholder the opportunity to specify how the available funds will be invested. Like traditional life insurance there is usually a guaranteed minimum rate or return which the policy will earn, and excess investment earnings can increase the face amount as well as the cash value. Some policies permit the policyholder to redirect part or all of the available funds among the various investment alternatives offered by the insurer.

21. Nonguaranteed-premium life insurance. Under these policies, the benefits are fixed and are not adjustable by the policyholder. However, the premium, subject to a stated maximum, may be decreased or increased by the insurance company. Some policies stipulate that premium changes will be linked to changes in factors such as interest, mortality, persistency, and expense rates. Certain policies are not linked to specific rates or indices and state that the insurance company at its sole discretion can charge the maximum or some lesser premium. In the latter case, premium rate changes are frequently motivated by competition.

Transferabilty or Business Exchange Rider

22. Many currently written long-duration key-person life insurance policies contain a business exchange or transferability rider and are transferable from one person to another insurable person in the event employment is terminated. The advantage of the business exchange rider is that permits the policy to be reissued without diluting the cash surrender value. When the policy exchange occurs, an adjustment is required if there is a difference in the age of issue between the previous insured and the successor. The adjustment can take the form of a change in a (a) the face amount of the insurance, (b) the cash surrender value, and/or (c) premium rate, depending on the terms of the rider. For example, if an entity hires an executive at age 45, employs him for three years until the age of 48, and hires a new executive who is 38 years old, the policy may be automatically reissued as of the original policy date in the name of the new executive with an entry age of 35. The business exchange rider might maintain the face amount of the policy at the original level and refund to the entity the difference in cash surrender value. Alternatively, the transferability rider may require the insurance company to reissue at a proportionately higher face amount and reduce the premiums as illustrated in Appendix B.

Compensation Plans

23. Key-person life insurance policies frequently have been used in connection with employee compensation plans. Two of the more common plans featuring key-person life insurance

in which the employer is both an owner and beneficiary of the policy are split dollar plans and supplemental deferred compensation plans.

24. Split dollar plans. Although there are many variations in split dollar plans, they basically provide for a sharing between the employer and employee of the premium payments, ownership, cash values, and death benefits. In some split dollar plans, the entity contributes premiums in an amount equal to the yearly increase in the cash surrender value and the employee contributes the balance. The entity owns the cash value as a security interest for its contributions. On the employee's death, the entity would recover an amount equal to the policy's cash value with the balance of the proceeds going to the employee's heirs.

25. Other split dollar plans provide for the employee to pay the "term cost" of current life insurance protection and the entity to pay the balance of the premium. On the employee's death, the entity would recover an amount equal to cumulative premiums paid with the balance going to the employee's beneficiary. Under these plans, the entity's payments during the early policy years will normally exceed the underlying cash surrender value.

26. Supplemental deferred compensation plans. Under these plans, the entity is the owner and beneficiary of the long-duration key-person life insurance policy. The policy is usually continued in force until the executive's death, at which time

the life insurance proceeds realized are expected to be sufficient to enable the entity to recover all premiums paid to date, any after-tax interest on policy loans, the after-tax cost of all supplemental deferred compensation benefits paid to the key-person or his heirs (usually under a "nonqualified" deferred compensation plan), and in some cases, an interest factor for the use of the entity's money.

Current Accounting Standards

27. Accounting for key-person life insurance. The continued appropriateness of an AICPA accounting interpretation, "Accounting for Key-Man Life Insurance," which was issued in November 1970 (see Appendix A), is being questioned. This interpretation specifies that a life insurance policy be carried as an asset at its cash surrender value. Differences between periodic premiums and increases in cash surrender value are to be charged or credited to earnings. This method of accounting has also been applied to split dollar plans.

28. Under a ratable charge method, the total of premiums to be paid in excess of cash surrender value at the end of a selected measurement period is ratably expensed over that period. The interpretation indicates that the principal reason for rejecting a ratable charge method of accounting was the possibility that the key-person might terminate his employment before the policy was paid up. With the advent of features permitting transfer of policies from a terminated executive to a successor some entities have accounted for key-person life insurance using

a ratable charge method. It is not known the extent to which ratable charge methods have been used or whether the transaction to which they have been applied have been material to the entities.

29. Accounting for key-person life insurance intended to fund deferred compensation and other benefits. The method of accounting for deferred compensation and other post-employment benefits funded by key-person life insurance is also being questioned.

30. APB Opinion No. 8, Accounting for the Cost of Pension Plans, applies to "deferred compensation contracts with individual employees if such contracts taken together are equivalent to a pension plan" (paragraph 8). The method specified by APB Opinion No. 8 takes into account the funding of the plan. The Opinion also applies to unfunded and insured plans. Under this Opinion, "the annual provision for pension cost should be based on an accounting method that uses an acceptable actuarial cost method."

31. APB Opinion No. 12, Omnibus Opinion - 1967, paragraphs 6-8, applies to other deferred compensation contracts, which--

> ...should be accounted for individually on an accrual basis. The estimated amounts to be paid under each contract should be accrued in a systematic and rational manner over the period of active employment from the time the contract is entered into. The amounts to be accrued periodically should result in an accrued amount at the end of active employment which is not less than the then present value of the estimated payments to be made.

If the compensation agreements provide for the payment of survivor benefits in the event of early death, the "estimates should

be based on the life expectancy (based on the most recent mortality tables available) or on the estimated costs of annuity contracts rather than on the minimum payable in the event of early death." The deferred compensation may be expensed on either a straigh-line or discounted present value basis (accrue interest on unfunded liability) over the employee's remaining service life. (See Appendix G.) APB Opinion No. 12 does not discuss the funding of deferred compensation arrangements.

PROPOSED ALTERNATIVE METHODS

Cash Surrender Value Method

32. The cash surrender value method of accounting for traditional key-person life insurance is discussed in the AICPA accounting interpretation in Appendix A. Cash surrender value as used herein refers to the net amount that would be received on termination of the policy after deducting cancellation and similar charges. Under this method, premiums net of the increase in cash surrender value are charged to expense, and the cash surrender value is carried as an asset on the balance sheet. This method results in higher charges to income in the early policy years and, in many cases, credits to income in the later years as the cash surrender value of the policy increases. (See Appendix C, Examples 1 and 2.)

Ratable Charge Methods

33. Pro rata ratable charge method. Under the pro rata ratable charge method, the net cost of the policy is considered to be total premiums to be paid minus the total cash surrender

value at the end of a selected measurement period. Measurement periods that have been used in practice have been, for example, seven to ten years, to the end of the premium-paying period (that is, when premiums are no longer required to be paid under the policy), or until the key-person's projected retirement date. This cost, if any, is amortized evenly over the measurement period producing a level annual expense. After the measurement period, the cash surrender value method is followed. The measurement period should not extend beyond the projected retirement date in order that the cost will be recognized during the key-person's period of employment. Thus, this method could not be based on expected death benefits under the policy. Under many competitively priced life insurance policies currently being issued, cumulative cash surrender value will exceed cumulative premiums after a relatively short period. In such cases, the excess of the cash surrender value over the cumulative premium payments may (a) be accrued on a ratable basis from inception of the policy or (b) not be recognized until cumulative cash values exceed cumulative premiums. Under the pro rata ratable charge method, premiums in excess of cash surrender values during the early policy years would be recorded as an asset realizable from future increases in cash surrender values. (See Appendix C, Examples 1 and 2.)

34. Some believe that the pro rata ratable charge method of accounting for traditional key-person life insurance is inappropriate since the time of value of money is not recognized. They have proposed that interest-adjusted ratable charge methods be used.

35. Interest-adjusted ratable charge method based on cash surrender value. Under the interest-adjusted ratable charge method based on cash surrender value, a level annual deposit amount would be determined which, at an assumed interest rate, would accumulate to the projected cash surrender value of the policy at the end of the measurement period, for example at the anticipated retirement age of the executive. The excess of the premium paid over this level deposit amount would be accounted for each year as insurance expense for the death benefit protection obtained under the policy. Interest at the assumed rate on the accumulated deposit amounts would be taken into income each year (see Appendix D). If the policy remains in force after the measurement period, it would thereafter be accounted for under the cash surrender value method.

36. The premise for the interest-adjusted ratable charge method based on cash surrender value is that when an entity pays a premium for a life insurance policy that exceeds the level annual deposit which (at an appropriate assumed interest rate) would accumulate to the projected cash surrender value of the policy, that excess theoretically represents an amount paid for life insurance protection. Such excess should appropriately be treated as expense.

37. Interest-adjusted ratable charge method based on death benefit. When there is intent or a plan or arrangement to keep a policy in force until the key-person's death, some believe it may be appropriate to base the accounting on the anticipated

death benefit rather than on cash surrender value. Under many programs in which life insurance is used in conjunction with supplementary retirement income arrangements for executives, the intent is that the policy will be kept in force until death rather than be surrendered prior to the payment of supplemental retirement benefit payments. Financial projections accompanying marketing proposals for such arrangements are invariably based on keeping insurance in force until death. One major reason for this approach is that policy proceeds can be received tax-free upon death, whereas surrendering the policy would result in the recognition of taxable income for the excess of the cash surrender value over premiums paid.

38. The interest-adjusted ratable charge method based on the death benefit is similar to the interest-adjusted ratable charge method based on cash surrender value. However, under the death benefit approach the level annual deposit would not be based on cash surrender value at the end of the measurement period, but would be related to the present value of the expected death benefit as of the key-person's expected retirement date. The anticipated date of death would be based on life expectancy or mortality factors (see Appendix E). After retirement, the present value of the projected death benefit would be increased annually at the assumed interest rate.

Split Dollar Plans

39. Under split dollar plans, the entity expects to recover the portion of the cumulative premiums it has paid either from the cash surrender value or from death benefits. Accordingly,

the entity's share of the premiums paid under such plans would be accounted for in the same manner as other key-person life insurance policies.

Investment Methods

40. Some view traditional forms of life insurance policies that are intended to be continued in force until an executive's death as an investment, since the policy has a fixed maturity value (the face amount of the policy), and the anticipated investment gain is the excess of the death benefits over the cumulative amount of the premiums payable. Life insurance policies, however, differ from other forms of investments since (a) the maturity date is at the death of the insured (or the endowment date, if earlier); (b) the investment is usually purchaixed installments represented by periodic premium payments, but death of the insured terminates the obligation to make further premium payments; (c) certaieath of n policies ("participating policies") pay dividends, which are essentially a return of premium (however, many policy owners use such dividends to purchase additional paid-up life insurance); (d) the policy can be redeemed at any time for its cash surrender value; (e) instead of surrendering the policy, a policyholder may borrow against the cash surrender value at an interest rate, and there is no obligation to repay policy loans prior to maturity (that is, at death or surrender outstanding policy loans and accrued interest are deducted from the benefits). Some believe that despite such variables, the ultimate gain (excess of death benefits over the cost of policy) on a traditional policy can be estimated by assuming a life

expectancy and date of death based on current mortality tables or otherwise, and projecting premium payments and policyholder dividends. The benefit to be received on death is the face amount of the basic policy plus the estimated additional amounts of paid-up life insurance purchased with the policyholder dividends and less unpaid policy loans and accrued interest. The cost of the policy is the cumulative premiums payable under the policy less any dividends that will not be used to purchase paid-up additional life insurance and less anticipated policy loans. The investment yield is calculated as if the net cash outflows were deposits in an interest bearing account with interest compounded annually to yield the anticipated net death benefit. The rate of interest is then applied to the carrying value of the policy at any date to develop the amount of investment income to be accrued. The carrying value of the policy would be the cumulative premiums paid, less dividends not used to purchase additional life insurance, and plus accumulated accrued investment income. The application of this method would also require consideration of the tax effects and possible timing differences arising from the treatment of interest expense on policy loans. (If policy loans cannot be anticipated, the method could be aplied by recognizing the accrued interest on the actual policy loans as an expense each period and by reducing the carrying value of the accumulated policy loans and accumulated accrued interest on policy loans.)

41. As an alternative, some believe that the estimated proceeds to be received under the investment method should be

predicated on the policy's anticipated cash surrender value at the end of the measurement period, rather than the death benefit. The anticipated investment gain is the excess of the cash surrender value at the end of the measurement period over the cumulative amount of premiums payable. The investment yield is calculated by treating the net premium payments as deposits in an interest bearing account with interest compounded annually to yield the expected cash surrender value.

42. Although practical application of the investment method may be feasible for traditional life insurance policies, the additional uncertainties inherent in certain newer types of products that permit the policyholder to vary the face amount or premiums (such as long-duration flexible-premium universal life and adjustable life insurance) may prevent reasonable projections of future investment yields on such products.

Receivable Method

43. The receivable method integrates the accounting for life insurance and post-employment benefits. The premiums paid and the accrued after-tax cost of post-employment benefits are recorded as a receivable which is expected to be realized from the proceeds of the life insurance policy on the death of the key person. (See Appendix H.) Proponents believe that this method does not anticipate income but recognizes that certain cost will be recoverable from life insurance proceeds.

44. Some believe that the receivable method is appropriate if long-duration life insurance policies are purchased in connec-

tion with contractual obligations to pay supplemental deferred compensation or other post-employment benefits. Under these programs, the life insurance policies are frequently kept in force until the key-person's death. The life insurance proceeds are expected to enable the entity to recover the cumulative premiums paid plus the after-tax cost of the supplemental compensation benefits and, in some cases, the after-tax interest cost on policy loans. Some plans even limit the amount of supplemental compensation benefits to an amount that will not exceed the sum of (a) life insurance benefits less cumulative premiums paid and (b) income tax benefits. Under the receivable method, premiums paid and the accrued after-tax cost of post-employment benefits that are expected to be recovered from the life insurance proceeds are recorded as a receivable. Such amounts are readily determinable under traditonal long-duration policies since the cumulative premiums paid, after-tax cost of interest on policy loans (when relevant), and the paid-up life insurance and tax benefits realizable each year as the compensation payments are made can be reasonably estimated. The aggregate receivable may not exceed the amounts reasonably expected to be recoverable from the life insurance policy.

Deferred Taxes

45. Cash surrender value in excess of cumulative premiums paid is taxable to the policyholder when a policy is surrendered. Therefore, under accounting methods that assume that the ultimate benefit of a policy will be the cash surrender value, deferred income taxes should be provided if the carrying value of the asset for investment in life insurance exceeds cumulative premiums paid.

VIEWS ON PRESENT PRACTICES AND PROPOSED METHODS

Cash Surrender Value Method

46. Advocates of the cash surrender value method of accounting for traditional key-person life insurance believe that the annual net cost of long-duration life insurance is the excess of premiums over the change in cash surrender value and this annual cost should be recorded in the income statement. They believe that the cash surrender value method appropriately recognizes only the cash surrender value of the policy as an economic resource of the entity that should be presented as an asset on the balance sheet. FASB Statement of Concepts No. 3, paragraph 19 defines assets as a "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Cash surrender values represent potential cash inflows available to the entity that are the result of past premium payments. They believe that amounts based on the value of the policy at some future date should not be considered assets since the realization of those amounts depends on future transactions in the form of future gross premium payments.

47. The advocates believe that expense recognition principles under generally accepted accounting principles require that key-person life insurance premiums in excess of the increase in cash surrender value should be charged to expense currently. They believe that the policyholder should not record as an asset an amount in excess of the policy's cash surrender value because

they believe that those amounts provide no discernible benefits to future periods. They believe that the proposed alternative methods result in the artificial levelling of costs over the future premium-paying periods.

48. Advocates of the cash surrender value method also believe that the existence of a business exchange rider does not alter the substance of the transaction. The business exchange rider may assure that the entity will not be forced to surrender the policy by events beyond its control (such as when the insured quits). Thus, it enhances the entity's ability to keep a policy in force until maturity. However, the probability that an amount will be recoverable in the future does not by itself cause the amount to be considered an asset today. The realization of future policy values still depends on keeping the policy in force.

49. Opponents of the cash surrender value method have proposed alternative methods, which are discussed below.

Ratable Charge Methods

50. There are three variations of ratable charge methods of accounting, which are the pro rata method and the interest-adjusted methods based on cash surrender value and death benefit. Those who support ratable charge methods believe that the net cost of a long-duration life insurance policy (the excess, if any, of the cumulative premiums over the benefits available as of the end of the measurement period) should be expensed on either a pro rata or interest-adjusted basis over the measure-

ment period of the policy because an entity buying such insurance usually has the intent and ability to keep the policy in force for a considerable period of time. Ordinarily, the entity will continue to pay premiums until (a) the insured retires, (b) the terms of the key-person's contract have been met, (c) the insured dies, or (d) the policy becomes paid up. Thus, they believe that it is appropriate for the entity to charge such excess to expense over the measurement period. In addition, they believe that either a pro rata or interest-adjusted charge to expense is a systematic and rational method that properly allocates costs over the measurement period. In support of that view they cite the following form paragraph 159 of APB Statement No. 4, Basic Concepts and Accounting Principles:

> If an asset provides benefits for several periods, its cost is allocated to the periods in a systematic and rational manner in the absence of a more direct basis for associating cause and effect. The cost of an asset that provides benefits for only one period is recognized as an expense of that period (also a systematic and rational allocation). This form of expense recognition always involves assumptions about the pattern of benefits and the relationship between costs and benefits because neither of these two factors can be conclusively demonstrated. The allocation method used should appear reasonable to an unbiased observer and should be followed systematically. Examples of items that are recognized in a systematic and rational manner are depreciation of fixed assets, amortization of intangible assets and allocation of rent and insurance.

51. Some also argue that the excess of the premiums over the cash surrender value during the early policy years represents primarily the costs incurred in acquiring the policy. Paragraphs 28 and 29 of FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, describe how an insurance company accounts for those costs:

> Acquisition costs are those costs [incurred by an insurer] that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Commissions and other costs (for example, salaries of certain employees involved in the underwriting and policy issue functions, and medical and inspection fees) that are primarily related to insurance contracts issued or renewed during the period in which the costs are incurred shall be considered aquisition costs.
>
> Acquisition costs shall be capitalized and charged to expense in proportion to premium revenue recognized. . . .

52. Some believe that similar principles should apply to the owner of an insurance policy. Accordingly, the policyholder should not immediately expense the effect on cash surrender value of the issuer's first-year policy acquistion costs but should amortize the effect of those costs in a systematic and rational manner over the measurement period. However, the information required to "unbundle" the insurance premium into its various components and determine the amount related to acquisition costs, mortality charges, and other elements is not available to the policyholder of a traditional long-duration life insurance policy. They believe that even if the policyholder could unbundle the premium and amortize the acquisition costs over the premium paying period as an insurance company does, the results would not differ significantly from a ratable charge method. (See Appendix I for an example of unbundling a premium.)

53. Proponents of the ratable charge methods also believe that the methods properly recognize an additional cost of the insurance, which is the amount of income not realized during each period because funds were invested in key-person life insurance rather than in assets generating current period income.

It is this absence of income that reflects the additional cost of the key-person life insurance.

54. Many currently written long-duration key-person life insurance policies are transferable from one executive to another insurable executive in the event employment is terminated. Thus, losses from surrender of policies due to executive turnover are ordinarily avoided. If the policies are transferable, proponents of the ratable charge methods contend that the policy has continuing value since the uncertainties regarding whether the policies will remain in force until the end of the measurement period are substantially reduced. It is therefore not necessary to limit the carrying value of the policy to its cash surrender or cancellation value. Such transferable policies came into existence after the AICPA accounting interpretation and were not considered in developing the interpretation.

55. Opponents of the ratable charge methods believe that the business exchange rider does not alter the substance of the transaction. Some also suggest that the effect of a business exchange rider, which permits the transfer of the policy from one employee to another, and another, and so on, may make it more difficult to determine the measurement period and, therefore, the ultimate cash value or death benefit and the number of years on which the ratable charge calculations should be based. For example, if there is a constant turnover of insured executives, the recovery of premiums might be deferred. Supporters of the ratable charge methods believe that the business exchange rider

makes it likely that the policy will be continued in force until the cash surrender value exceeds cumulative premiums, and it thereby enhances the recoverability of the premium payments. One of the reasons given in the AICPA accounting interpretation for the cash surrender value method was the uncertainty of continuing the policy in force.

56. Supporters of the ratable charge methods contend that when the entity has the intent and ability to continue the policy in force, the cash surrender values of the policy at earlier dates do not represent the value of the policy to the entity. FASB Statement No. 5, Accounting for Contingencies, provides that a loss should be recorded if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated. If increases in the policy's cash surrender value at the end of the measurement period will exceed cumulative premiums, it is not reasonable to asume that a loss (such as would occur with the surrender of the policy) has been incurred. Some believe, therefore, that recognizing a loss by carrying the key-person life insurance policy at cash surrender or liquidating value is not in accordance with FASB Statement No. 5.

57. A basic feature of financial accounting is the assumption that, in the absence of evidence to the contrary, an entity will continue in operation as a going concern and will not be liquidated. The going concern concept requires the allocation of expenditures for trademarks, patents, goodwill, bond discount

and debt issue cost, and other items to future accounting periods when it can be reasonable anticipated that such amounts relate to future periods. Supporters of the ratable charge methods argue that traditional key-person life insurance is a long-duration contract, and its cost, if any, should be recognized in a systematic and rational manner over the life of the policy. If short-duration coverage were intended, term life insurance would be substantially more economical. They also believe it is contrary to the going concern concept to carry a noncurrent asset at its cash surrender or current liquidating value when it is not probable that the asset will be liquidated. Carrying the policy at its cash surrender value presumes that the policy will be surrendered. They believe that any loss resulting from surrender of a policy should be recorded in the period the decision is made to cancel the policy, and the loss should not be anticipated by carrying the policy at its surrender or liquidating value.

Pro Rata Ratable Charge Method

58. Advocates of the pro rata ratable charge method believe that there should not be a charge to income in any year if at the end of the measurement period the cumulative cash surrender value will exceed cumulative premiums. When it is the entity's intent to continue the policy in force and the cash surrender value of the policy will exceed cumulative premiums paid, they believe that no expense should be recorded. Some believe, however, that income should not be recognized until the cash surrender value exceeds cumulative premiums. Their reasons are that the purpose of the method is to defer and amortize the effects of

policy acquisition costs on cash surrender value and that the gains should not be recognized until they can be realized. Others believe it is appropriate to recognize income immediately if the cash surrender value will ultimately exceed cumulative premiums.

59. Proponents of the pro rata ratable charge method believe that the method appropriately defers and amortizes the effect of policy acquisition costs on cash surrender value in a systematic and rational manner. They also believe that the pro rata method is easier to apply than interest-adjusted methods, and it does not require the subjective determination of an interest rate. They further believe that differences between the pro rata and interest-adjusted methods would usually not be material to the entity.

60. Opponents of the pro rata ratable charge method believe that the method does not recognize the present value of the proceeds to be received on maturity of the policy. In the earlier years of the policy, the ratable charge method results in the recording of an asset for cumulative premiums in excess of the underlying cash surrender value. Premiums paid today may not be recoverable from the cash surrender value for many years. They believe that the pro rata ratable charge method artificially levels the policy acquistion and other costs and does not explicitly recognize the time value of money. Supporters of the ratable charge method believe, however, that the method implicitly recognizes the cost of key-person life insurance, which is the foregone income that could have been earned on other investments.

Interest-Adjusted Ratable Charge Method Based on Cash Surrender Value

61. Advocates of the interest-adjusted ratable charge method based on cash surrender value believe that any excess of premiums paid by an entity for a long-duration life insurance policy over the level annual deposit which, at an appropriate interest rate, would accumulate to the projected cash surrender value of the policy at the end of the measurement period, represents the amount of expense the entity is incurring to acquire life insurance protection. They believe that this accounting method represents a practical way of distinguishing between the expense element and the investment element in a life insurance policy. This method can be implemented without attempting to unbundle the precise elements of any particular insurance premium. They believe that any accounting approach based on unbundling the life insurance premium would not be practical to implement.

62. Opponents of the interest-adjusted ratable charge method based on cash surrender value note that in the early years of the policy the method will typically result in carrying as an asset an amount (accumulated level annual deposits at interest) which will be in excess of its cash surrender value. They believe that any method which results in carrying such a "soft asset" is inappropriate. They also contend that the method results in the development of a level annual amount as insurance expense which is theoretically inconsistent with the results of unbundling, since in actuality the mortality cost charged to the policy by the insurance company can be expected to increase year by year.

Interest-Adjusted Ratable Charge Method Based on Death Benefit

63. Advocates of the interest-adjusted ratable charge method based on death benefit believe that it better conforms to the economics of the typical arrangement when it can be reasonably anticipated that the policy will be continued in force until death. For example, when a policy is used as a funding vehicle for supplementary retirement benefits promised to an executive there is no intention to realize the cash surrender value of the policy. When an entity's intent is to keep the policy in force until the death of the insured, the accounting should be based upon the anticipated death benefit rather than the cash surrender value.

64. Opponents of the interest-adjusted ratable charge method based on death benefit believe that it has the same weaknesses as the interest-adjusted ratable charge method based on cash surrender value. In addition, it introduces a further element of estmation into the accounting, that is, the necessity of having to determine a projected date of death. Opponents also believe that at higher assumed interest rates this method can, in some years, result in carrying the asset at an amount that is less than its cash surrender value. They believe that recording the asset at less than its cash surrender value is unduly conservative.

Interest Rate to be Used in Interest-Adjusted Ratable Charge Methods

65. Interest-adjusted ratable charge methods of accounting for key-person life insurance require the selection of an appro-

priate interest rate. Although not directly applicable, APB Opinion No. 21, paragraph 13, provides the following guidance in selecting an interest rate for determining the present value of a receivable or payable:

> The choice of rate may be affected by the credit standing of the issuer, restrictive covenants, the collateral, payment and other terms pertaining to the debt, and, if appropriate, the tax consequences to the buyer and seller. **The prevailing rates for similar instruments of issuers with similar credit ratings will normally help determine the appropriate interest rate for determining the present value of a specific note at its date of issuance. In any event, the rate used for valuation purposes will normally be at least equal to the rate at which the debtor can obtain financing of a similar nature from other sources at the date of the transaction.** The objective is to approximate the rate which would have resulted if an independent borrower and an independent lender had negotiated a similar transaction under comparable terms and conditions with the option to pay the cash price upon purchase or to give note for the amount of the purchase which bears the prevailing rate of interest to maturity. [Emphasis added.]

This section discusses these considerations as they relate to key-person life insurance.

66. Credit standing. The choice of a rate requires consideration of the risks associated with the financial stability of the insurance company. Insurance companies are regulated by state authorities, and their solvency is closely monitored to protect the interests of policyholders. Further, in many states, policyholders are protected by state "guarantee funds" in the event of insolvency. Experience has indicated that investments in life insurance bear relatively low credit risk compared to other corporate obligations.

67. Marketability. There are no restrictive covenants, but life insurance policies are not readily marketable in the

sense that equity and debt securities are. An interest in a life insurance policy, however, may be transferred to another owner. An owner of a policy would not logically accept less than the cash surrender value for transferring a policy, since the policy can be surrendered at any time for the cash value. A purchaser, on the other hand, might be willing to pay more than the cash value of the policy to avoid the effects of the acquistion costs associated with a new policy.

68. Collateral. There is no collateral required for the issuance of a life insurance policy.

69. Payment and other terms. Key-person life insurance is a long-duration contract that requires periodic payments of premiums. The timing of the receipt of benefits is not fixed, but the amount of benefits that would be received at any future date can be determined.

70. Tax consequences. Life insurance has certain tax advantages over other types of investments. The accumulation of cash surrender value in excess of premiums is not taxed unless and until the policy is surrendered. Tax-free policyholder dividends can be used to buy paid-up additions to the policy. Death benefits are not taxable to the beneficiary.

71. Possible rates. Some believe that the interest rate to be used in interest-adjusted methods that assume the policy will be kept in force until death is a rate comparable to that for a tax-exempt investment (such as a municipal bond) with similar risk and maturity.

72. Some believe that the interest rate to be used in interest-adjusted methods that assume that the policy will be surrendered (for example, at the employee's retirement date) is a rate that is comparable to that for a tax deferred investment of similar maturity and risk.

73. APB Opinion No. 21 states that rates for "similar instruments of issuers with similar credit ratings" and "the rate at which the debtor can obtain financing of a similar nature from other sources" are considered in determining a discount rate. Insurance companies rarely borrow funds in the public market, but obtain their funds through insurance activities. The life insurance business is competitive, and the rates at which amounts are credited to policy values could be expected to be generally comparable for similar policies. However, the rates of return in insurance are difficult to determine because of the varying features of different policies and because of different views as to the basis for determining such rates. Some believe that an alternative financing rate can be approximated by using the current rate at which the insurance company would make policy loans. Some further believe that because interest on policy loans is tax deductible by the policyholder, the alternative financing rate should be an after-tax rate.

Investment Methods

74. Proponents of the investment method based on the expected death benefit believe that if any entity has both the intent and ability to continue a traditional type of life insurance policy in force until the death of the executive, it is preferable

to account for the key-person life insurance policy as an investment. Accordingly, they believe that the excess of the face amount of the policy, including any paid-up additions to be purchased with policyholder dividends, over the cumulative net premiums payable ("investment gain") should be accrued and credited to income in a systematic and rational manner over the expected life of the policy. Assuming the policy will be held until death of the executive, cash surrender values will never be realized as such and are not considered as they are under cash surrender value and ratable charge accounting methods. Supporters argue that other methods of accounting implicity assume surrender of the policy (for example, at termination or retirement of the executive) and do not comtemplate continuation of the policy in force until death, which in most cases is after the executive's retirement date.

75. In the case of the newer, more flexible forms of insurance products such as flexible-premium universal life and adjustable life insurance policies, the application of the investment method may be impractical because of the many speculative assumptions which would have to be made. These include the elections that the entity could make as to changes in the levels of insurance protection, premium payment amounts, and the like. In the particular case of flexible-premium universal life and adjustable life, a cash value oriented accounting method may be theoretically preferable since the substance of the product can be perceived as a combination of an investment fund with variable amounts of term life insurance protection.

76. Thus, the investment method might be perceived as appropriate in theory if the insurance product bears a basic similarity to a discount bond with a determinable principle amount, but not if it is essentially similar to the maintenance of a cash fund earning a variable, short-term rate of return.

77. Opponents of the investment method believe that unless there are premature deaths, the cash outflow for payment of premiums will substantially exceed any recoveries during the policy's early years. Such outlays will ultimately be recovered if the assumptions with respect to mortality, policyholder dividends, and interest on policy loans are realized and the entity continues to make premium payments and keeps the policy in force over a fairly long time. Recording an asset for premiums and accrued anticipated income in excess of underlying cash surrender value results in setting up an asset on the balance sheet that may not be fully realized. Because of the magnitude and long-term nature of such uncertainties, some believe that the investment method is not appropriate.

78. Supporters of the alternative investment method based on cash surrender value at the end of the measurement period believe that it is more conservative and eliminates the uncertainty about continuing the policy in force beyond the end of the measurement period until the key-person's death. Opponents of the ratable charge and receivable methods make similar arguments against this method. They also contend that the investment method based on cash surrender value would not be appropriate when cumulative premiums exceed cash surrender value at the

end of the measurement period. Application of the investment method in that circumstances would require the use of a negative interest rate as illustrated in Appendix F, Example 3.

Receivable Method

79. Proponents of the recievable method believe that it is consistent with APB Opinion No. 8, which requires that the cost of a pension plan be charged in a systematic and rational manner through the use of an acceptable actuarial cost or funding method over the service lives of the employees. Such actuarial methods contemplate future mortality, turnover, and earnings on pension funds in determining current funding requirements and the related accounting costs. Since for a qualified pension plan an entity does not separately account for the pension funding an pension costs, there is no justification for separately accounting for the life insurance and post-employment benefits. The difference between conventional pension funding and post-employment benefits funded by life insurance is that the premiums are advances of the entity's capital that are recoverable. It is the earnings on such advances resulting from cash value increases in excess of premiums, policyholder dividends, and death benefits that fully recover cumulative premiums paid plus the after-tax amount of retirement obligations.

80. Proponents of the receivable method, which integrates the accounting for life insurance and deferred compensation or other post-employment benefits, believe that it is appropriate in those situations when life insurance policies are purchased to recover the after-tax cost of post-employment benefits plus

the cumulative premiums payable. They argue that it recognizes the integral, long-term nature of the plan and the amounts recoverable under the life insurance policies. There is a contractual obligation to pay the post-employment benefits, and a strong likelihood exists that the policies, which contain business exchange or transferability riders, will be kept in force. The life insurance is designed to recapture the after-tax amount of benefit payments, and it is therefore economically unsound to terminate the policies before death.

81. By recording the liability for post-employment benefits and simultaneously establishing contra assets for the appropriate deferred tax benefit and the amount recoverable from life insurance, the entity's direct obligation to pay the post-employment benefits will be provided for in its financial statements. Proponents of the receivable method believe that it is inconsistent to expense post-employment benefits over the active remaining service life of an employee under the theory that such benefits will be paid subsequent to retirement, and at the same time not recognize until it is collected the amount that will be recovered from the life insurance.

82. FASB Statement No. 5 provides that a loss should be recorded if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated. Under a properly designed plan, the after-tax amount of post-employment benefits plus the cumulative premiums are recoverable from the life insurance death proceeds. Advocates of the receivable method believe that if the entity has the

intent and the ability to continue the policies in force it is not reasonable to assume that losses have been incurred by separately accounting for the post-employment benefits and life insurance. Losses may be incurred if (a) policies are prematurely surrendered at some future date, contrary to the entity's current intent; (b) the life insurance company is unable to meet its obligations under the policies when they become due; (c) the employee is terminated and there is no business exchange agreement automatically insuring the successor employee without diluting cash surrender value; or (d) actual experience varies adversely from assumptions to the extent that costs cannot be recovered.

83. Advocates of the receivable method, however, believe that the possibility of such losses occuring can be substantially reduced. The receivable method recognizes that the business exchange or transferability rider substantially reduces the risk of surrender losses. Further, some plans may, by their provisions, be able to eliminate or reduce post-employment benefits if any of the events described in the preceding paragraph occur.

84. Certain plans specifically limit post-employment benefits to the amount remaining after the entity first recovers the cumulative premiums paid and the anticipated tax benefits. Some believe that the receivable method is particularly appropriate for such plans. They believe it would not be appropriate to accrue the liability for post-employment benefits without recognizing that such amounts are not payable unless they are recoverable from the life insurance policies.

85. Those in favor of the receivable method also believe that the establishment of an asset for premiums in excess of cash surrender values plus the after-tax amount of post-employment benefits, does not result in anticipating income. Such a receivable is theoretically sound and appropriate since realization is reasonably assured. Secondly, a proper matching of income and expense is achieved. Expensing amounts in early years and recording offsetting gains in later years does not properly account for the true cost over the term of the plan. The cost of the plan, which is the amount of income not realizable during each fiscal period because funds were invested in life insurance rather than in assets generating current period income, is properly recognized. It is the absence of this income that reflects the accounting cost of the plan.

86. Opponents of the receivable method believe that compensation should be expensed in the period that it is earned by the employee regardless of when it is paid. They question whether the pattern of foregone interest income reflects the compensation expense in the appropriate periods. Some also believe that the receivable method may inappropriately anticipate tax benefits of deferred compensation. The decision to pay post-employment benefits and the purchase of life insurance are distinct and separate transactions that should not be considered together. The fact that life insurance proceeds may be available to recover

the after-tax cost of benefits should not eliminate the need for expensing the benefits in the appropriate period. Accounting for life insurance should not be affected by the existence or nonexistence of post-employment benefit plans, and conversely the accounting for post-employment benefits should not be affected by the existence or nonexistence of life insurance.

87. Unless there are premature deaths, the cash outflow for payment of premiums and post-employment benefits will substantually exceed any recoveries during the early years of the plan. Such outlays will utlimately be recovered if the assumptions with respect to mortality, policyholder dividends, income taxes, and interest on policy loans are realized, and the entity does not terminate the insurance coverage. Because of the magnitude and long-term nature of such uncertainties, opponents of the receivable method believe that the post-employment benefits should be expensed over the active service life of the employee and the life insurance should be separately accounted for as traditional key-person life insurance.

88. Opponents of the receivable method believe that establishing a receivable for the after-tax amount of the post-employment benefits and premiums in excess of cash values is equivalent to anticipating future income. The receivable is realizable from future increases in cash surrender values, policyholder dividends, and/or death benefits. Such practice is contrary to the generally accepted accounting principle of not recognizing income until earned.

89. Life insurance purchased to fund post-employment benefits is similar to traditional key-person life insurance. In both cases the entity pays premiums and receives proceeds either on the death of an employee or surrender of the policy. Opponents of the receivable method believe that the method of accounting for traditional key-person life insurance should be followed.

Costs of Applying Alternative Methods

90. Unbundling of a traditional key-person life insurance premiums, as illustrated in Appendix I, would not be practical for financial accounting purposes. A key-person life insurance premium cannot be divided into its components by a policyholder.

91. The various interest-adjusted ratable charge methods described in this paper require the determination of either the cash surrender value or death benefit under the policy at some future date, the assumption of an interest rate, and the allocation or amortization of amounts over the term of the policy. At the inception of a policy, projected amounts of cash surrender value or death benefit at any selected date would be readily determinable. The imputation of an interest rate and the calculations involved with interest-adjusted ratable charge and investment methods are more complex than the calculations for the pro rata ratable charge and cash surrender value methods. Some believe that a requirement to use a more complex method of accounting would impose a burden, especially on smaller enterprises. Others, however, believe that the interest-adjusted methods are similar to other present value accounting methods, such

as for receivables and payables under APB Opinion No. 21 and for leases. Although those accounting methods also have been criticized for their complexity, supporters of interest-adjusted methods suggest that insurers would ordinarily be able and willing to assist policyholders in performing the necessary calucalations. The pro rata ratable charge method does, however, require the projection of benefit levels at a future date, and the receivable method requires periodic calculations to test the recoverability of amounts recorded as assets.

92. Opponents of the cash surrender value method of accounting argue that, although the method is simple to apply, it involves costs beyond those of record processing. They believe that the high level of expense recorded under the cash surrender value method in the early years (often the entire premium) has caused many entities to decide not to purchase key-person life insurance even though it might be economically advantageous for the entity to do so. They also believe that the cash surrender value method has led some insurance companies to design policies with high cash values in early years to avoid recording high expenses. They believe that such distortions in the policies are inefficient, can result in inequities with other policyholders, and result in lower levels of benefits in later policy years. They believe, therefore, that the cash surrender value method is costly in that it results in inappropriate business decisions.

ADVISORY CONCLUSIONS

93. The following are the advisory conclusions recommended by the Accounting Standards Executive Committee. AcSEC's votes on the advisory conclusions are indicated following the conclusions.

Accounting for Key-Person Life Insurance

94. The preferable method of accounting for key-person life insurance is the cash surrender value method. Under this method, premiums, net of the change in cash surrender value, should be charged or credited to income, and the cash surrender value of the policy should be recorded as an asset. (9 yes, 4 no, 1 abstention, 1 absent)

95. Under no circumstances should key-person life insurance be accounted for by a method other than the cash surrender value method. (8 yes, 7 no)

Accounting for Key-Person Life Insurance Purchased to Fund Post-Employment Benefits

96. Disregarding the possible application of APB Opinion No. 8, in accounting for key-person life insurance purchased to fund post-employment benefits, the investment in life insurance should be accounted for separately from the liability for deferred compensation or other post-employment benefits. (13 yes, 1 no, 1 absent)

Views of the Insurance Companies Committee and Its Task Force

97. It was the view of the AICPA Insurance Companies Committee (by a vote of 11 to 2) and its Corporate-Owned Life Insurance Task Force (by a vote of 4 to 0) that key-person life insurance

be accounted for by the pro rata ratable charge method when (a) there is a contractual obligation to continue the policy in force or a business exchange rider, and (b) the entity has the ability and intent to continue the policy in force. Those views were not accepted as the advisory conclusions of AcSEC.

98. The views of the Insurance Companies Committee regarding accounting for key-person life insurance purchased to fund post-employment benefits (agreed to by a vote of 7 to 6) are consistent with AcSEC's advisory conclusion (described in paragraph 96) that the investment in life insurance should be accounted for separately from the liability for deferred compensation or other post-employment benefits. The task force favored the receivable method, which integrates the accounting for life insurance and post-employment benefits.

Glossary

Beneficiary - The person named in the policy to receive the benefits in the event of the insured's death.

Business exchange rider - A provision that permits the insurance coverage to be transferred from one insurable person to another insurable person (also called a transferability rider).

Cash surrender value - The net amount that would be received on termination of a policy after deducting cancellation or similar charges, unpaid policy loans, and accumulated interest.

Cumulative premiums - The total amount paid as premiums since the inception of a policy less any policyholder dividends not used to purchase additional amounts of life insurance.

Dividend scales or illustrations - Projections by the insurance company of the expected amount of policyholder dividends that may be paid under participating policies. Payments of future dividends, however, are not guaranteed by the insurance company.

Endowment policy - A life insurance policy that provides life insurance protection equal to the face amount of the policy from the inception date of the policy to the maturity date and provides that if the insured is living at the maturity date the face amount of the policy will be paid at that date.

Extended term insurance - Life insurance acquired under a nonforfeiture benefit option in a policy providing for the use of cash surrender value to acquire term insurance for the face amount of the policy for as long a term as the cash surrender value will provide.

Face amount - The amount of death benefit initially guaranteed under a life insurance policy.

In force policy - A policy that has not expired, been cancelled, or surrendered.

Key-person life insurance - Insurance on the life of an executive of an entity when the entity is both a policy owner and a beneficiary.

Long-duration contract - An insurance contract that generally is not subject to unilateral changes in its provisions, such as a noncancelable or guaranteed renewable contract, and requires the performance of various functions and services (including insurance protection) for an extended period.

Measurement period - The period over which benefits and cumulative premiums are projected for purposes of applying the ratable charge methods of accounting. The end of this period is referred to as the measurement date.

Mortality - the relative incidence of death in a given time or place.

Mortality cost - The expected cost to provide for current death benefits based on the probability of death in the current period and the net amount of benefits payable on death of the insured.

Nonforfeiture benefits - Those benefits in a life insurance contract that the policyholder does not forfeit, even for failure to pay premiums. Nonforfeiture benefits usually include cash value, policy loan value, paid-up insurance value, or extended-term insurance value.

Paid-up insurance - Insurance for which no further premiums

are required to be paid for the benefits payable to the beneficiary at the death of the insured or at the maturity date.

Participating policy - A policy that is entitled to share in the policyholder dividend distribution.

Permanent life insurance - Insurance that may be kept in force for a person's entire life by paying one or more premiums. It is paid for in one of three different ways: (a) ordinary life insurance (also whole life or straight life; premiums are payable as long as the insured lives), (b) limited-payment life insurance (premiums are payable over a specified number of years), and (c) single-premium life insurance (a lump-sum amount paid at the inception of the insurance contract). The insurance pays a benefit (contractual amount adjusted for items such as policy loans and dividends, if any) at the death of the insured. Permanent insurance contracts also build up nonforfeiture benefits.

Policyholder - The owner of an insurance policy who ordinarily has (a) the right to receive nonforfeiture benefits and name the beneficiary, and (b) the obligation to pay premiums.

Policyholder dividends - Payments made or credits extended to the insured by the company under participating policies that result in reducing the net insurance cost to the policyholder. Such dividends may be paid in cash to the insured, applied by the insured as a reduction of the premium due for the next policy year, or used to purchase additional paid-up life insurance.

Policy loan - a loan made by a life insurance company to a policyholder on the security of the cash surrender value of the policy.

Reduced paid-up insurance - A form of insurance available as a nonforfeiture option that provides for continuation of the original insurance plan, but for a reduced face amount with no further payment or premiums.

Short-duration contract - A contract that provides insurance protection for a fixed period of short duration and enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided.

Split-dollar plan - A plan in which the employer and an employee share in the premium payments and benefits of a life insurance policy.

Term life insurance - Insurance that provides a benefit if the insured dies within the period specified in the contract. The insurance is for level or declining amounts for stated periods, such as 1, 5, or 10 years, or to a stated age. Term life insurance generally has no loan or cash value.

Traditional life insurance - Various types of life insurance policies under which the amounts of premiums and face amount cannot be varied at the discretion of the policyholder.

APPENDIXES

APPENDIX A

AICPA Accounting Interpretation

Deferred Compensation Contracts

UNOFFICIAL ACCOUNTING INTERPRETATIONS

1. Accounting for Key-Man Life Insurance

Question—Is the "ratable charge" method of accounting for the cost of nonterm life insurance policies on corporate officers an acceptable accounting method?

Answer—No, the ratable charge method is not acceptable for use by a corporation to account for the cost of officer's life insurance policies. Under this method, the net cost of the policy (total premiums to be paid minus total cash surrender value for a paid-up policy is amortized over the life of the policy) by the straight-line method, producing a "level" annual charge. The method assumes that a critical unknown—the length of time an officer will remain in the corporation's employment—can be predicted with much greater certainty than is usually justifiable. If the policy should be discontinued prior to the payment of all scheduled premiums (for example, because of termination of the officer's employment or a change in management's policies), the ratable charge method would result in a "writeoff" of a large unamortized deferred charge.

The generally accepted method of accounting for nonterm insurance on the life of a corporate officer is to charge the increase in the cash surrender value of the policy to an asset account and to charge the remaining balance of the annual premium to expense. Advocates of the ratable charge method cite the large charges to expense under the generally accepted method in the early years of a policy as being too conservative and inconsistent with the "matching" and "going concern" concepts in accounting.

Admittedly the generally accepted method is conservative, but it reflects the economic realities of the transaction. And "matching" should not be confused with "leveling." Finally, the going concern concept recognizes that businesses continue in existence, but the fact that a business continues is not an argument for deferring costs unless a future period will in fact be benefited.

[Issue Date: November, 1970]

APPENDIX B

ILLUSTRATION OF BUSINESS EXCHANGE AGREEMENT

The agreement, often called a business exchange rider, permits a policyholder to continue a policy after it no longer has an insurable interest in the life of the original insured by transferring the policy from the life of the original insured to the life of another person. The essential features are that the policy retains the same date of issue, no surrender of the policy results, and there are no new acquisition costs.

Page 54 presents the provisions of an actual business exchange rider. Page 55 shows how the policy can retain its cash value while the face amount and future premiums change based on the age of the new insured at the original date of issuance of the policy. It also comments on typical rider variations. Pages 56 and 57 compare the results of an exchange in year 4 with the surrender of the original policy and the purchase of a new policy.

Business Insurance Exchange Rider

Benefit — You may exchange the named insured on this policy for a new insured, subject to this rider's terms.

Exchange Conditions — Exercise of this exchange will be subject to the following conditions:
— the business relationship which existed between you and the insured as of the policy date is terminated;
— the new insured has the same business relationship to you as of the exchange date that the insured had on the policy date;
— the new insured must submit evidence of insurability satisfactory to us;
— premiums on this policy must be paid to the date of exchange;
— you must make written application for the exchange, return this policy for reissue and pay any costs or charges as determined by us.

Exchange Date — The exchange date is the first monthly anniversary of the policy date on or after the exchange conditions are met.

Coverage on New Insured — Coverage on the new insured will become effective on the exchange date. Coverage on the current insured will terminate on the day before the exchange date.

This policy's policy date will not be changed unless the new insured was born after the policy date. In that case, the new policy date will be the anniversary of this policy next following the birthdate of the new insured.

The contestable and suicide periods for the new insured will begin on the exchange date.

The premium rate for the new insured will be that rate applicable for the insured's sex, age on the policy date and underwriting class. Riders on the new insured will be added only with our consent and subject to our requirements.

The amount of insurance on the new insured will be such that the cash value before the exchange equals the cash value after the exchange. If there is no cash value, the amount of insurance will be determined by equating reserves.

Effective Date — This rider is effective on the policy date unless otherwise stated hereon. This rider will terminate:
— on termination or lapse of this policy; or
— if ownership is changed; or
— if the option provided by this rider is exercised.

General Conditions — Any indebtedness or assignment outstanding against this policy will not be affected by the exchange. This rider is a part of the policy to which it is attached. All terms of this policy which do not conflict with this rider's terms apply to this rider.

Mutual Life Insurance Company

President

Secretary

APPENDIX B

ILLUSTRATION OF BUSINESS EXCHANGE AGREEMENT

Examples of the Use of the Business Insurance Exchange Rider

Situation:

Employer owns insurance policy that was issued 3 years ago on the life of an executive now age 48.

Question:

What happens to that policy if it is transferred to an executive now age 38 or 58?

Answer:

The policy retains its original effective date. The policy values will be as follows:

Policy	Original	Reissued To Younger Executive	Reissued to Older Executive
Age at Original Issue Date	45	35	55
Current Age	48	38	58
Cash Value	$ 3,671	$ 3,671	$ 3,671
Face Amount	100,398	164,222	62,178
Premium Hereafter	2,400	2,365	2,541

Typical Variations in the Provisions of Exchange Riders

Exchange rider provisions differ slightly from company to company. The most common is the provision that the cash value of the policy on the new insured equals the cash value of the policy on the old insured. Other common provisions include equal premiums or equal face amounts.

APPENDIX B

COMPARISON OF POLICY EXERCISING THE BUSINESS EXCHANGE RIDER WITH THE PURCHASE OF A NEW POLICY

	ORIGINAL POLICY				NEW POLICY			
	ISSUED AT AGE 45 AND THEN TRANSFERRED AFTER 3 YEARS TO AN EXECUTIVE AGE 38 AT THE TIME OF TRANSFER				ISSUED IN YEAR 4 AT ATTAINED AGE 38			
YEAR	GROSS ANNUAL PREMIUM	POLICY VALUE INCREASE	TOTAL CASH VALUE END OF YEAR	TOTAL DEATH BENEFIT BEG OF YEAR	GROSS ANNUAL PREMIUM	POLICY VALUE INCREASE	TOTAL CASH VALUE END OF YEAR	TOTAL DEATH BENEFIT BEG OF YEAR
1	2400	20	20	100000	0	0	0	0
2	2400	1623	1643	100058	0	0	0	0
3	2400	2029	3671	100398	0	0	0	0
4	2365	2397	6069	164222	2739	24	24	163301
5	2365	2529	8598	165202	2739	1720	1744	163391
6	2365	2672	11269	166579	2739	2496	4240	163697
7	2365	2995	14264	168347	2739	2796	7036	164401
8	2365	3167	17431	170807	2739	2782	9818	165512
9	2365	3357	20788	173665	2739	3111	12929	167023
10	2365	3726	24513	176890	2739	3452	16381	168942
11	2365	3962	28476	180400	2739	3483	19864	171582
12	2365	4389	32865	184361	2739	4029	23893	174626
13	2365	4674	37539	188795	2739	4102	27994	178052
14	2365	4984	42523	193707	2739	4543	32537	181769
15	2365	5313	47836	199111	2739	4839	37375	185976
16	2365	5834	53670	204999	2739	5160	42535	190668
17	2365	6220	59889	211392	2739	5671	48206	195857
18	2365	6634	66524	218301	2739	6046	54252	201552
19	2365	7244	73767	225739	2739	6449	60701	207765
20	2365	7719	81486	233722	2739	6880	67581	214508
21	2365	8213	89700	242221	2739	7506	75088	221791
22	2365	8736	98436	251259	2739	7995	83083	229626
23	2365	9299	107735	260849	2739	8525	91608	238017
24	2365	10063	117797	271019	2739	9068	100675	246942
25	2365	10538	128335	281795	2739	9647	110323	256433
26	2365	11393	139728	293201	2739	10439	120762	266512
27	2365	11967	151695	305288	2739	10949	131711	277229
28	2365	12912	164606	318087	2739	11660	143371	288611
29	2365	13575	178181	331630	2739	12577	155948	300685
30	2365	14619	192800	345948	2739	13217	169164	313478
31	2365	15383	208183	361085	2739	14065	183229	327028
32	2365	16533	224716	377080	2739	14966	198195	341375
33	2365	17425	242141	393990	2739	15931	214126	356566
34	2365	18363	260503	411879	2739	16778	230903	372660
35	2365	19740	280243	430825	2739	17890	248793	389739
36	2365	20849	301092	450937	2739	19057	267850	407871
37	2365	22124	323216	472265	2739	20060	287910	427134
38	2365	23277	346493	494757	2739	21265	309175	447465
39	2365	24804	371297	518416	2739	22508	331683	466866
40	2365	26052	397349	543234	2739	23795	355478	491327

APPENDIX B

ADVANTAGE OF EXERCISING THE BUSINESS EXCHANGE RIDER

EXAMPLE POLICY ISSUED AT AGE 45 AND THEN TRANSFERRED AFTER 3 YEARS TO AN EXECUTIVE AGE 38 AT THE TIME OF TRANSFER

"n loss on original policy and no duplication of acquisition costs due to purchase a new policy.

Improved long term results:

A. Results End of 15 Years:	Exchanged Policy	New Policy
CASH AVAILABLE TO OWNER -		
Cash Value	$ 47,836	$ 37,375
+ Cash From Surrender - Compounded at 7% Interest	0	8,268
Total Cash	$ 47,836	$ 45,643
- Difference in Premiums - Compounded at 7%	0	7,159
Net Cash Available	$ 47,836	$ 38,484
DEATH BENEFIT PROCEEDS -		
Policy Proceeds	$199,111	$185,976
+ Cash From Surrender - Compounded at 7%	0	8,268
Total Cash	$199,111	$194,244
- Difference in Premiums - Compounded at 7%	0	7,159
Net Proceeds	$199,111	$187,085
B. Results End of 30 Years:		
CASH AVAILABLE TO OWNER -		
Cash Value	$192,800	$169,164
+ Cash From Surrender of Original Policy - Compounded at 7%	0	22,811
Total Cash	$192,800	$191,975
- Difference in Premiums - Compounded at 7%	0	29,807
Net Cash Available	$192,800	$162,168
DEATH BENEFIT PROCEEDS -		
Policy Proceeds	$345,948	$313,478
+ Cash From Surrender of Original Policy - Compounded at 7%	0	22,811
Total Cash	$345,948	$336,289
- Difference in Premiums - Compounded at 7%	0	29,807
Net Proceeds	$345,948	$306,482

APPENDIX C
EXAMPLE 1

ILLUSTRATION OF CASH SURRENDER VALUE AND PRO RATA RATABLE CHARGE METHODS
(CASH SURRENDER VALUE EXCEEDS CUMULATIVE PREMIUMS)

This table illustrates the application of the cash surrender value method and pro rata ratable charge method as described in the advisory conclusions to a life insurance policy that is paid-up at age 65 for an insured with an entry age of 45. In this policy, the cash surrender value exceeds cumulative premiums in the eleventh year.

				CASH SURRENDER VALUE METHOD		PRO RATA RATABLE CHARGE METHOD		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AGE AT YEAR END	ANNUAL PREMIUM	CASH SURRENDER VALUE (CSV)	INCREASE IN CASH SURRENDER VALUE	INCOME (EXPENSE) RECOGNIZED	CUMULATIVE INCOME (EXPENSE) RECOGNIZED	INCOME (EXPENSE) RECOGNIZED (a)	CUMULATIVE INCOME (EXPENSE) RECOGNIZED	CUMULATIVE PREMIUMS IN EXCESS OF CSV
46	$ 2400	20	20	(2,380)	(2,380)	0	0	2,380
47	2400	1,643	1,623	(777)	(3,157)	0	0	3,157
48	2400	3,671	2,028	(372)	(3,529)	0	0	3,529
49	2400	5,918	2,247	(153)	(3,682)	0	0	3,682
50	2400	8,290	2,372	(28)	(3,710)	0	0	3,710
51	2400	10,899	2,609	209	(3,501)	0	0	3,501
52	2400	13,558	2,659	259	(3,242)	0	0	3,242
53	2400	16,480	2,922	522	(2,720)	0	0	2,720
54	2400	19,579	3,099	699	(2,021)	0	0	2,021
55	2400	22,966	3,387	987	(1,034)	0	0	1,034
56	2400	26,592	3,626	1,226	192	192	192	0
57	2400	30,472	3,880	1,480	1,672	1,480	1,672	0
58	2400	34,628	4,156	1,756	3,428	1,756	3,428	0
59	2400	39,078	4,450	2,050	5,478	2,050	5,478	0
60	2400	43,843	4,765	2,365	7,843	2,365	7,843	0
61	2400	49,052	5,209	2,809	10,652	2,809	10,652	0
62	2400	54,530	5,478	3,078	13,730	3,078	13,730	0
63	2400	60,500	5,970	3,570	17,300	3,570	17,300	0
64	2400	66,784	6,284	3,884	21,184	3,884	21,184	0
65	2400	73,614	6,830	4,430	25,614	4,430	25,614	0
	$48,000		73,614	25,614		25,614		

(a) Income is not recognized until cash surrender value exceeds cumulative premiums paid.

ILLUSTRATION OF CASH SURRENDER VALUE AND PRO RATA RATABLE CHARGE METHODS

(Cumulative Premiums Exceed Cash Surrender Value)

				CASH SURRENDER VALUE METHOD		PRO RATA RATABLE CHARGE METHOD	
AGE AT YEAR END	ANNUAL PREMIUM	CASH SURRENDER VALUE (CSV)	INCREASE IN CASH SURRENDER VALUE	INCOME (EXPENSE) RECOGNIZED	CUMULATIVE INCOME (EXPENSE) RECOGNIZED	INCOME (EXPENSE) RECOGNIZED	CUMULATIVE INCOME (EXPENSE) RECOGNIZED
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
53	$14,400	$ -	$ -	$(14,400)	$(14,400)	$(5,015)	$(5,015)
54	14,400	3,600	3,600	(10,800)	(25,200)	(5,015)	(10,030)
55	14,400	14,400	10,800	(3,600)	(28,800)	(5,015)	(15,045)
56	14,400	25,200	10,800	(3,600)	(32,400)	(5,015)	(20,060)
57	14,400	35,600	10,400	(3,600)	(36,400)	(5,015)	(25,075)
58	14,400	46,400	10,800	(4,000)	(40,000)	(5,015)	(30,090)
59	14,400	57,200	10,800	(3,600)	(43,600)	(5,015)	(35,105)
60	14,400	67.600	10,400	(4,000)	(47,600)	(5,015)	(40,120)
61	14,400	78,400	10,800	(3,600)	(51,200)	(5,015)	(45,135)
62	14,400	88,800	10,400	(4,000)	(55,200)	(5,015)	(50,150)
63	14,400	100,000	11,200	(3,200)	(58,400)	(5,015)	(55,165)
64	14,400	110,800	10,800	(3,600)	(62,000)	(5,015)	(60,180)
65	14,400	122,000	11,200	(3,200)	(65,200)	(5,020)	(65,200)
	$187,200		$122,000	$65,200		$65,200	

This table illustrates the application of the cash surrender value method and the pro rata ratable charge method as described in the advisory conclusions to a life insurance policy that is paid-up at age 65 for an insured with an entry age of 52. In this policy, the cumulative premiums exceed the cash surrender value throughout the premium paying period.

ILLUSTRATION OF INTEREST-ADJUSTED RATABLE CHARGE METHOD BASED ON CASH SURRENDER VALUE

(Cash Surrender Value Exceeds Cumulative Premiums)

(1) AGE AT YEAR-END	(2) ANNUAL PREMIUM	(3) LEVEL PAYMENT	(4) INSURANCE COST (2) - (3)	(5) BEGINNING BALANCE	(6) INTEREST 7% x (5)	(7) ENDING BALANCE (5) + (6)	(8) NET INSURANCE INCOME (EXPENSE) (6) - (4)
46	$ 2400	$ 1678	$ 722	$ 1,678	$ 117	$ 1,795	$ (605)
47	2400	1678	722	3,473	243	3,716	(479)
48	2400	1678	722	5,394	378	5,772	(344)
49	2400	1678	722	7,450	522	7,972	(200)
50	2400	1678	722	9,650	675	10,325	(47)
51	2400	1678	722	12,003	840	12,843	118
52	2400	1678	722	14,521	1,017	15,538	295
53	2400	1678	722	17,216	1,205	18,421	483
54	2400	1678	722	20,099	1,407	21,506	685
55	2400	1678	722	23,184	1,623	24,807	901
56	2400	1678	722	26,485	1,854	28,339	1132
57	2400	1678	722	30,017	2,101	32,118	1379
58	2400	1678	722	33,796	2,366	36,162	1644
59	2400	1678	722	37,840	2,649	40,489	1927
60	2400	1678	722	42,167	2,952	45,119	2230
61	2400	1678	722	46,797	3,276	50,073	2554
62	2400	1678	722	51,751	3,622	55,373	2900
63	2400	1678	722	57,051	3,994	61,045	3272
64	2400	1678	722	62,723	4,391	67,114	3669
65	2400	1678	722	68,792	4,822	73,614	4100
	48,000	33,560	14,440		40,054		25,614

This table illustrates the application of the interest-adjusted ratable charge method based on cash surrender value to a life insurance policy that is paid-up at age 65 for an insured with an entry age of 45. In this policy , the cash surrender value exceeds the cumualtive premiums at the end of the measurement period (in this example, at the retirement date). The level payment (3) is calculated as the amount of annual payments which at 7% interest will accumulate to the projected cash surrender value at the end of the measurement period, which is $73,614. Begininning balance (5) is previous year's ending balance plus the level payment.

ILLUSTRATION OF INTEREST-ADJUSTED RATABLE CHARGE METHOD BASED ON CASH SURRENDER VALUE

(Cumulative Premiums Exceed Cash Surrender Value)

(1) AGE AT YEAR END	(2) ANNUAL PREMIUM	(3) LEVEL PAYMENT	(4) INSURANCE COST (2)-(3)	(5) BEGINNING BALANCE	(6) INTEREST 7% x (5)	(7) ENDING BALANCE (5) + (6)	(8) NET INSURANCE INCOME (EXPENSE) (6) - (4)
53	$ 14,400	$ 5,661	$ 8,739	$ 5,661	$ 396	$ 6,057	$ (8,343)
54	14,400	5,661	8,739	11,718	820	12,538	(7,919)
55	14,400	5,661	8,739	18,199	1,274	19,473	(7,465)
56	14,400	5,661	8,739	25,134	1,759	26,893	(6,980)
57	14,400	5,661	8,739	32,554	2,279	34,833	(6,460)
58	14,400	5,661	8,739	40,494	2,835	43,329	(5,904)
59	14,400	5,661	8,739	48,990	3,429	52,419	(5,310)
60	14,400	5,661	8,739	58,080	4,066	62,146	(4,673)
61	14,400	5,661	8,739	67,807	4,746	72,553	(3,993)
62	14,400	5,661	8,739	78,214	5,475	83,689	(3,264)
63	14,400	5,661	8,739	89,350	6,255	95,605	(2,484)
64	14,400	5,661	8,739	101,266	7,089	108,355	(1,650)
65	14,400	5,661	8,739	114,016	7,984	122,000	(755)
	$187,200	$73,593	$113,607		$48,407		$(65,200)

This table issustrates the application of the interest-adjusted ratable charge method based on cash surrender value to a life insurance policy that is paid-up at age 65 for an insured with an entry age of 52. In this policy the cumulative premiums exceed the cash surrender vlaue throughout the premium-paying period. The level payment (3) is calculated as the amount of annual payments which at 7% interest will accumulate to the projected cash surrender value at the end of the measurement period (in this example, at the retirement date), which is $122,000. Beginning balance (5) is the previous year's ending balance plus the level payment.

APPENDIX E

ILLUSTRATION OF INTEREST-ADJUSTED RATABLE CHARGE METHOD BASED ON DEATH BENEFIT

ASSUMPTIONS:

Male at age 45
$100,000 policy paid up at age 65
Life expectancy is age 77
7% discount rate

1. PRESENT VALUE AT AGE 65 OF DEATH BENEFIT PROCEEDS

DEATH BENEFIT PROCEEDS	211,251
YEARS OF DISCOUNT TO AGE 65	12 YEARS
DISCOUNT RATE	7%
PRESENT VALUE OF DEATH BENEFIT PROCEEDS AT AGE 65	93,798

2. LEVEL ANNUAL EQUIVALENT OF PRESENT VALUE AT AGE 65

PRESENT VALUE OF DEATH BENEFIT PROCEEDS AT AGE 65	93,798
YEARS FROM INCEPTION OF COVERAGE UNTIL AGE 65	20 YEARS
DISCOUNT RATE	7%
LEVEL ANNUAL EQUIVALENT	2,138

3. LEVEL ANNUAL COST TO AGE 65

PREMIUM	2,400
LEVEL ANNUAL DISCOUNT	2,138
INTEREST ADJUSTED RATABLE CHARGE	262

APPENDIX E

INTEREST-ADJUSTED RATABLE CHARGE METHOD
BASED ON DEATH BENEFIT

(1) AGE AT YEAR END	(2) ANNUAL PREMIUM	(3) LEVEL PAYMENT	(4) INSURANCE COST (2) - (3)	(5) BEGINNING BALANCE	(6) INTEREST 7% x (5)	(7) ENDING BALANCE (5) + (6)	(8) NET INSURANCE INCOME (EXPENSE) (6) - (4)
46	$ 2400	$ 2138	$ 262	2,138	150	2,288	(112)
47	2400	2138	262	4,426	310	4,735	48
48	2400	2138	262	6,873	481	7,355	219
49	2400	2138	262	9,493	664	10,157	402
50	2400	2138	262	12,295	861	13,156	599
51	2400	2138	262	15,294	1,071	16,364	809
52	2400	2138	262	18,502	1,295	19,797	1,033
53	2400	2138	262	21,935	1,535	23,471	1,273
54	2400	2138	262	25,609	1,793	27,402	1,531
55	2400	2138	262	29,540	2,068	31,607	1,806
56	2400	2138	262	33,745	2,362	36,108	2,100
57	2400	2138	262	38,246	2,677	40,923	2,415
58	2400	2138	262	43,061	3,014	46,075	2,752
59	2400	2138	262	48,213	3,375	51,588	3,113
60	2400	2138	262	53,726	3,761	57,487	3,499
61	2400	2138	262	59,625	4,174	63,798	3,912
62	2400	2138	262	65,936	4,616	70,552	4,354
63	2400	2138	262	72,690	5,088	77,778	4,826
64	2400	2138	262	79,916	5,594	85,510	5,332
65	2400	2138	262	87,648	6,135	93,784	5,873
66				93,784	6,565	100,349	6,565
67				100,349	7,024	107,373	7,024
68				107,373	7,516	114,889	7,516
69				114,889	8,042	122,931	8,042
70				122,931	8,605	131,537	8,605
71				131,537	9,208	140,744	9,208
72				140,744	9,852	150,596	9,852
73				150,596	10,542	161,138	10,542
74				161,138	11,280	172,418	11,280
75				172,418	12,069	184,487	12,069
76				184,487	12,914	197,401	12,914
77				197,401	13,818	211,219	13,818
	48,000	42,760	5,240		168.459		163.219

APPENDIX F

ILLUSTRATION OF INVESTMENT METHOD

To apply the investment method of accounting, a rate of return is determined which, when applied to the scheduled premium payments, will accumulate to the projected death benefit amount under the policy at an assumed date of death.

The illustration in Example 1 is based on a $100,000 whole life participating policy issued on the life of a person at age 45. Annual premiums will be paid-up at age 65. At age 77 (life expectancy), the death benefit under the policy (including dividend additions) is projected to be approximately $211,250. The implicit investment rate of return based on these assumptions is 6.5%. The cash surrender value of the policy in each year is also shown for purposes of comparison.

The illustration in Example 2 is based on the same policy with an issue age of 45. In this illustration, the calculations are based on the cash surrender value at retirement date of $73,614. The implicit investment rate of return based on these assumptions is 3.915%.

The illustration in Example 3 is based on the cash surrender value at the retirement date ($122,000) of a policy with an entry age of 52. The investment return rate based on these assumptions is 6.33% and results in an expense each year.

APPENDIX F

EXAMPLE 1

ILLUSTRATION OF INVESTMENT METHOD
BASED ON DEATH BENEFIT
(Cash Surrender Value Exceeds Cumulative Premiums)

AGE AT YEAR END	PREMIUM	BEGINNING INVESTMENT BALANCE	INVESTMENT INCOME (3)x6.5%	ENDING INVESTMENT BALANCE (3) + (4)	CASH SURRENDER VALUE
(1)	(2)	(3)	(4)	(5)	(6)
46	$ 2,400	$ 2,400	$ 156	$ 2,556	$ 20
47	2,400	4,956	322	5,278	1,643
48	2,400	7,678	499	8,177	3,671
49	2,400	10,577	688	11,265	5,918
50	2,400	13,665	888	14,553	8,290
51	2,400	16,953	1,102	18,055	10,899
52	2,400	20,455	1,330	21,784	13,558
53	2,400	24,184	1,572	25,756	16,480
54	2,400	28,156	1,830	29,987	19,579
55	2,400	32,387	2,105	34,492	22,966
56	2,400	36,892	2,398	39,290	26,592
57	2,400	41,690	2,710	44,400	30,472
58	2,400	46,800	3,042	49,842	34,628
59	2,400	52,242	3,396	55,637	39,078
60	2,400	58,037	3,772	61,810	43,843
61	2,400	64,210	4,174	68,383	49,052
62	2,400	70,783	4,601	75,384	54,530
63	2,400	77,784	5,056	82,840	60,500
64	2,400	85,240	5,541	90,781	66,784
65	2,400	93,181	6,057	99,237	73,614
66	0	99,237	6,450	105,688	78,672
67	0	105,688	6,870	112,558	84,043
68	0	112,558	7,316	119,874	89,746
69	0	119,874	7,792	127,666	95,787
70	0	127,666	8,298	135,964	102,206
71	0	135,694	8,838	144,802	109,019
72	0	144,802	9,412	154,214	116,229
73	0	154,214	10,024	164,238	123,856
74	0	164,238	10,675	174,913	131,917
75	0	174,913	11,369	186,282	140,431
76	0	186,282	12,108	198,381	149,424
77	0	198,391	12,895	211,286	158,895
	$ 48,000		$163,286		

APPENDIX F

EXAMPLE 2

ILLUSTRATION OF INVESTMENT METHOD BASED ON CASH SURRENDER VALUE

(Cash Surrender Value exceeds Cumulative Premiums)

AGE AT YEAR END (1)	PREMIUM (2)	BEGINNING INVESTMENT BALANCE (3)	INVESTMENT INCOME (3) X 3.915% (4)	ENDING INVESTMENT BALANCE (3) + (4) (5)	CASH SURRENDER VALUE (6)
46	$ 2,400	$ 2,400	$ 94	$ 2,494	$ 20
47	2,400	4,894	192	5,086	1,643
48	2,400	7,486	293	7,779	3,671
49	2,400	10,179	398	10,577	5,918
50	2,400	12,977	508	13,485	8,290
51	2,400	15,855	622	16,507	10,899
52	2,400	18,907	740	19,647	13,558
53	2,400	22,047	863	22,910	16,480
54	2,400	25,310	991	26,301	19,579
55	2,400	28,701	1,124	29,825	22,966
56	2,400	32,335	1,262	33,487	26,592
57	2,400	35,887	1,405	37,292	30,472
58	2,400	39,692	1,554	41,246	34,628
59	2,400	43,646	1,709	45,354	39,078
60	2,400	47,754	1,870	49,624	43,843
61	2,400	52,024	2,037	54,061	49,052
62	2,400	56,461	2,210	58,671	54,530
63	2,400	61,071	2,391	63,462	60,500
64	2,400	65,862	2,579	68,441	66,784
65	2,400	10,841	2,773	73,614	73,614
	$48,000		$25,614		

APPENDIX F

EXAMPLE 3

ILLUSTRATION OF INVESTMENT METHOD BASED ON CASH SURRENDER VALUE

(Cumulative Premiums Exceed Cash Surrender Value)

AGE AT YEAR END (1)	PREMIUM (2)	BEGINNING INVESTMENT BALANCE (3)	INTEREST EXPENSE (3) X 6.33% (4)	ENDING INVESTMENT BALANCE (3) - (4) (5)	CASH SURRENDER VALUE (6)
53	$ 14,400	$ 14,400	$ (912)	$ 13,488	$ 0
54	14,400	27,888	(1,766)	26,122	3,600
55	14,400	40,522	(2,556)	37,956	14,400
56	14,400	52,356	(3,315)	49,041	25,200
57	14,400	63,441	(4,017)	59,423	35,600
58	14,400	73,823	(4,675)	69,148	46,400
59	14,400	83,548	(5,291)	78,258	57,200
60	14,400	92,658	(5,868)	86,790	67,600
61	14,400	101,190	(6,408)	94,782	78,400
62	14,400	109,182	(6,914)	102,268	88,800
63	14,400	116,668	(7,388)	109,280	100,000
64	14,400	123,680	(7,832)	115,848	110,800
65	14,400	130,248	(8,248)	122,000	122,000
	$187,200		$(65,200)		

APPENDIX G

ILLUSTRATION OF DEFERRED COMPENSATION

Accrual of Deferred Compensation
Discounted Present Value Basis

AGE AT YEAR END (1)	BEGINNING OF YEAR CUMULATIVE ACCRUAL (2)	7% INTEREST (3)	BASE PROVISION (4)	TOTAL (5)	50% TAX EFFECT (6)
46	$ 0	$ 0	$ 2,377	$ 2,377	$ 1,189
47	2,377	166	2,377	2,543	1,272
48	4,920	344	2,377	2,721	1,361
49	7,642	535	2,377	2,912	1,456
50	10,554	739	2,377	3,116	1,558
51	13,670	957	2,377	3,334	1,667
52	17,003	1,190	2,377	3,567	1,784
52	20,571	1,440	2,377	3,817	1,908
54	24,388	1,707	2,377	4,084	2,04
55	28,472	1,993	2,377	4,370	2,185
56	32,842	2,299	2,377	4,676	2,338
57	37,518	2,626	2,377	5,003	2,502
58	42,521	2,976	2,377	5,353	2,677
59	47,874	3,351	2,377	5,728	2,864
60	53,603	3,752	2,377	6,129	3,065
61	59,732	4,181	2,377	6,558	3,279
62	66,290	4,640	2,377	7,017	3,509
63	73,307	5,132	2,377	7,509	3,754
64	80,816	5,657	2,377	8,034	4,017
65	88,850	6,219	2,377	8,596	4,298
		49,906	47,540	97,466	48,723

Present value at end of age 65 of $150,000 payable in 15 annual installments of $10,000 is $97,455.

Column (3) = Column (2) beginning of year cumulative accrual x 7%.

APPENDIX G

ILLUSTRATION OF ACCRUAL OF DEFERRED COMPENSATION

Computation of Present Value of Deferred Compensation of $150,000 Payable in 15 annual Installments of $10,000 Beginning at Age 65.

AGE AT YEAR END	BEGINNING OF YEAR ACCRUAL	ANNUAL PAYMENT	7% INTEREST	50% TAX EFFECT
66	$ 97,455	$ 10,000	$ 6,122	$ 3,061
67	93,577	10,000	5,850	2,925
68	89,427	10,000	5,560	2,780
69	84,987	10,000	5,249	2,625
70	80,236	10,000	4,917	2,458
71	75,152	10,000	4,561	2,280
72	69,713	10,000	4,180	2,090
73	63,893	10,000	3,773	1,886
74	57,665	10,000	3,337	1,668
75	51,002	10,000	2,870	1,435
76	43,872	10,000	2,371	1,186
77	36,243	10,000	1,837	919
78	28,080	10,000	1,266	633
79	19,346	10,000	654	327
80	10,000	10,000	0	0
		$150,000	$52,545	$26,273

Present Value of $150,000 payable in 15 annual installments of $10,000 = $97,455.

APPENDIX G

ILLUSTRATION OF ACCRUAL OF DEFERRED COMPENSATION

ANNUAL LEVEL CHARGE OR STRAIGHT LINE BASIS

BALANCE OF ACCRUAL AT RETIREMENT	$ 97,455
YEARS UNTIL RETIREMENT	20
ANNUAL EXPENSE	4,873
TAX AT 50%	2,436
ANNUAL ACCRUAL	2,437

ILLUSTRATION OF RECEIVABLE METHOD

$150,000 SUPPLEMENTAL RETIREMENT BENEFIT PAYABLE ANNUALLY FOR 15 YEARS

$100,000 FACE AMOUNT OF LIFE INSURANCE

REDUCED PAID UP TAKEN AT AGE 65

AGE OF EMPLOYEE	PREMIUM	DEFERRED COMPENSATION ACCRUAL: BASE ACCRUAL	7% INTEREST	TOTAL	50% TAX BENEFIT	ACCRUAL LESS 50% TAX BENEFIT	INTEREST ON UNFUNDED RETIREMENT BENEFIT: 7% INTEREST	50% TAX BENEFIT	INTEREST LESS 50% TAX BENEFIT	ANNUAL INCREASE IN ACCOUNT RECEIVABLE (2) + (7) + (10)	CUMULATIVE RECEIVABLE	DEATH BENEFIT END OF YEAR	CASH SURRENDER VALUE
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
45	2400	2377	0	2377	1189	1189				3589	3589	100058	20
46	2400	2377	166	2543	1272	1272				3672	7260	100398	1643
47	2400	2377	344	2721	1361	1361				3761	11021	101005	3671
48	2400	2377	535	2912	1456	1456				3856	14877	101879	5918
49	2400	2377	739	3116	1558	1558				3958	18835	103017	8290
50	2400	2377	957	3334	1667	1667				4067	22902	104421	10899
51	2400	2377	1190	3567	1784	1784				4184	27085	106095	13558
52	2400	2377	1440	3817	1909	1909				4309	31394	108288	19579
53	2400	2377	1707	4084	2042	2042				4442	35836	110758	22966
54	2400	2377	1993	4370	2185	2185				4585	40421	113473	26592
55	2400	2377	2299	4676	2338	2338				4738	45159	116440	30472
56	2400	2377	2626	5003	2502	2502				4902	50060	119765	34628
57	2400	2377	2976	5353	2677	2677				5077	55137	123459	39078
58	2400	2377	3351	5728	2864	2864				5264	60401	127529	43843
59	2400	2377	3752	6129	3065	3065				5465	65865	131983	49052
60	2400	2377	4181	6558	3279	3279				5679	71544	136846	54530
61	2400	2377	4640	7017	3509	3509				5909	77453	142129	60500
62	2400	2377	5132	7509	3755	3755				6155	83607	147844	66784
63	2400	2377	5657	8034	4017	4017				6417	90024	154003	73614
64	2400	2377	6219	8596	4298	4298				6698	96722	160625	78672
65							6122	3061	3061	3061	99783	128551	84043
66							5850	2925	2925	2925	102708	134308	89746
67							5560	2780	2780	2780	105488	140366	95787
68							5249	2625	2625	2625	108113	146753	102206
69							4917	2459	2459	2459	110571	153504	109019
70							4561	2281	2281	2281	112852	160636	116229
71							4180	2090	2090	2090	114942	168134	123856
72							3773	1887	1887	1887	116828	176004	131917
73							3337	1669	1669	1669	118497	184244	140431
74							2870	1435	1435	1435	119932	192855	149424
75							2371	1186	1186	1186	121117	201856	158895
76							1837	919	919	919	122036	211251	168904
77							1266	633	633	633	122669	221072	179715
78							654	327	327	327	122996	231366	191127
79							0	0	0	0	122996	242163	203263
80													
	48000	47540	49904	97444	48722	48722	52547	26274	26274	122996			

Columns (3), (4), (5) and (6) - See illustration of Accrual of Deferred Compensation - Present Value Basis. (Appendix G)

Columns (8), (9) and (10) - See Illustration of Present Value of Deferred Compensation of $150,000 Payable in 15 Annual Installments of $10,000 (Appendix G)

Column (11) = Column (2) premium + Column (7) deferred compensation accrual less 50% tax benefit, less 50% tax benefit + Column (10) interest on unfunded retirement

APPENDIX I

TABLE 1

ILLUSTRATION OF "UNBUNDLED" PREMIUM METHOD

How a Life Insurance Company Builds a Policy

(Approximate results -- Male age 45 standard nonsmoker)

Age at Year End	PREMIUM	COMPANY EXPENSE AS % OF PREMIUM	COMPANY EXPENSE (1) X (2)	NET AMOUNT AT RISK	PROBABIL. OF DEATH	EXPECTED MORTALITY EXPENSE (4) X (5)	SECTION 818C ADJUST.	NEW FUNDS TO INVEST (1-3-6+7)	INVESTED BALANCE + PRIOR YR (12)PR.YR=	TOTAL FUNDS TO INVEST	INTEREST + INCOME (NET OF TAX 8.1)	INVESTMNT IN =CONTRACT-	CASH VALUE	EXCESS INVESTMNT IN =CONTRACT
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
46	2400	123	2952	100038	.00119	119	48.82	-422	0	-622	-50	-673	20	-693
47	2400	17	408	98759	.00165	163	48.19	1877	-673	1205	98	1302	1643	-341
48	2400	13	312	97334	.002087	203	47.50	1932	1302	3235	262	3497	3671	-174
49	2400	17	408	95961	.002501	240	46.83	1799	3497	5295	429	5724	5918	-194
50	2400	15	360	94727	.002863	271	46.23	1815	5724	7539	611	8150	8290	-140
51	2400	15	360	93522	.003228	302	45.64	1784	8150	9934	805	10738	10899	-161
52	2400	8	192	92537	.003612	334	45.16	1919	10738	12657	1025	13683	13558	125
53	2400	8	192	91808	.004025	370	44.80	1883	13683	15566	1261	16827	16480	347
54	2400	7	168	91179	.004474	408	44.50	1869	16827	18695	1514	20210	19579	631
55	2400	7	168	90507	.005102	462	44.17	1814	20210	22024	1784	23808	22966	842
56	2400	6	144	89848	.005774	519	43.85	1781	23808	25589	2073	27662	26592	1070
57	2400	6	144	89293	.006529	583	43.57	1717	27662	29378	2380	31758	30472	1286
58	2400	6	144	88831	.007382	656	43.35	1644	31758	33401	2706	36107	34628	1479
59	2400	6	144	88451	.008342	738	43.16	1561	36107	37668	3051	40719	39078	1641
60	2400	6	144	88140	.009448	833	43.01	1466	40719	42186	3417	45603	43843	1760
61	2400	5	120	87794	.010762	945	42.84	1378	45603	46981	3805	50786	49052	1734
62	2400	5	120	87599	.011611	1017	42.75	1306	50786	52092	4219	56311	54530	1781
63	2400	5	120	87344	.012535	1095	42.62	1228	56311	57539	4661	62200	60500	1700
64	2400	5	120	87219	.01358	1184	42.56	1138	62200	63338	5130	68468	66784	1684
65	2400	5	120	87011	.014722	1281	42.46	1041	68468	69510	5630	75140	73614	1526
	48,000		6840 / 20 = 342			11,723	894				44,811			

General Steps:

Gross premium
- Company overhead expense charged to policy in year
- Mortality cost (expected mortality x net amount at risk)
+ Section 818C credit under 1982 tax law (approx. $.50/1000 of net amount at risk)

Net premium investment
+ After-tax investment return

Investment in contract

* Expected mortality expense (6) and interest income (11) have been adjusted to approximately allow for federal tax payable by the life insurance company under the tax law in effect for 1983.

TABLE 2

APPENDIX 1

ILLUSTRATION OF "UNBUNDLED" PREMIUM METHOD

COMPUTATION OF ANNUAL INCOME (EXPENSE)
PAID-UP LIFE POLICY AT AGE 45
LEVEL AMORTIZATION OF EXPENSES

AGE AT YEAR END	PREMIUM	- EXPENSES	- EXPECTED MORTALITY EXPENSE	+ Sec. 818C ADJUSTMENT	+ 8.1% INTEREST	TOTAL (2)-(3)-(4) +(5)+(6)	INCOME (EXPENSE) (7)-(2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
46	$ 2400	$ 342	$ 119	$ 49	$ (50)	$ 1,938	$ (462)
47	2400	342	163	48	98	2,041	(359)
48	2400	342	203	48	262	2,165	(235)
49	2400	342	240	47	429	2,294	(106)
50	2400	342	271	46	611	2,444	44
51	2400	342	302	46	805	2,607	207
52	2400	342	334	45	1,025	2,794	394
53	2400	342	370	45	1,261	2,994	594
54	2400	342	408	45	1,514	3,209	809
55	2400	342	462	44	1,784	3,424	1,024
56	2400	342	519	44	2,073	3,656	1,256
57	2400	342	583	44	2,380	3,899	1,499
58	2400	342	656	43	2,706	4,151	1,751
59	2400	342	738	43	3,051	4,414	2,041
60	2400	342	833	43	3,417	4,685	2,285
61	2400	342	945	43	3,805	4,961	2,561
62	2400	342	1017	43	4,219	5,303	2,903
63	2400	342	1095	43	4,661	5,667	3,267
64	2400	342	1184	43	5,130	6,047	3,647
65	2400	342	1281	42	5,630	6,449	4,049
	$48000	$ 6840	$11,723	$ 894	$44,811	$ 75,142	$27,142
				Less insurance company's excess investment in policy		(1,526)	(1,526)
						73,616	25,616

Expenses (col. 3) is the level amortization of total company expenses ($6840) over 20 years (see Table 1, col. 3).

Expected mortality expense (col. 4), section 818c adjustment (col. 5), and interest (col. 6) are taken directly from columns 6, 7, and 11 of Table 1.

The totals of columns 7 and 8 minus the insurance company's excess investment in the policy (Table 1, col. 14), which represents an element of the insurance company's profit, approximate respectively the cash surrender value ($73,614) and the excess of cash surrender value over cumulative premiums ($25,614) at the end of the 20-year measurement period.

APPENDIX J

COMPARISON OF RESULTS OF METHODS

This table presents the income statement effects of the various proposed methods that are based on cash surrender value. The illustration is based on the policy with issue age of 45 in which cumulative premiums exceed the cash surrender value at the end of the measurement period.

		ANNUAL INCOME (EXPENSE) RECOGNIZED				
Age at Year End	Annual Premium	Cash Surrender Value Method (App. C, Ex. 1)	Pro Rata Ratable Charge Method (App. C, Ex. 1)	Interest-Adjusted Ratable Charge Method Based on CSV (App. D, Ex. 1)	"Unbundled" Premium Method (App. I, Table 2)	Investment Method (App. F, Ex. 2)
46	2400	(2380)	0	(605)	(462)	$ 94
47	2400	(777)	0	(479)	(359)	192
48	2400	(372)	0	(344)	(235)	293
49	2400	(153)	0	(200)	(106)	398
50	2400	(28)	0	(47)	44	508
51	2400	209	0	118	207	622
52	2400	259	0	295	394	740
53	2400	522	0	483	594	863
54	2400	699	0	685	809	991
55	2400	987	0	901	1,024	1,124
56	2400	1226	192	1132	1,256	1,262
57	2400	1480	1480	1379	1,499	1,405
58	2400	1756	1756	1644	1,751	1,554
59	2400	2050	2050	1927	2,041	1,709
60	2400	2365	2365	2230	2,285	1,870
61	2400	2809	2809	2554	2,561	2,037
62	2400	3078	3078	2900	2,903	2,210
63	2400	3570	3570	3272	3,267	2,391
64	2400	3884	3884	3669	3,647	2,579
65	2400	4430	4430	4102	4,049	2,773
		25,614	25,614	25,614	27,142	$25,614
				Less insurance company's excess investment in policy	(1,526)	
					25,616	