

# Statement of Statutory Accounting Principles No. 87 Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, and 73

## STATUS

Type of Issue:	Common
Issued:	Finalized September 11, 2002
Effective Date:	January 1, 2004
Affects:	Supersedes paragraph 3 of SSAP No. 4 Supersedes paragraphs 3 and 6 of SSAP No. 19 Supersedes paragraph 3 of SSAP No. 29 Supersedes paragraph 10 of SSAP No. 73
Affected by:	Superseded with guidance included in SSAP Nos. 4, 19, 29 and 73
Interpreted by:	INT 08-04

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**Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, and 73****SCOPE OF STATEMENT**

1. This statement establishes a statutory capitalization policy that is consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

**SUMMARY CONCLUSION**

2. In general, this statement amends the phrase “in accordance with the reporting entity's capitalization policy, immaterial amounts ... can be expensed ...” to “in accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold ... shall be expensed ...”. A predefined threshold shall be established, for each asset class identified by SSAP Nos. 19, 29, and 73, by management based upon an analysis of circumstances unique to the entity and shall not be adjusted from period to period except under extenuating circumstances. If an entity demonstrates a pattern of varying its capitalization policy from period to period without sufficient evidence as determined by the reporting entity's domestic regulator, such action would call into question both the entity's ability to accurately establish a predefined threshold and the propriety of expensing or capitalizing certain assets. Accordingly, entities shall expense all immaterial amounts (i.e., entity is no longer allowed to establish its own capitalization policy).

3. This statement amends paragraph 3 of SSAP No. 4 to the following:

As stated in the Statement of Concepts, "The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet," and are, therefore, considered nonadmitted. For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2 above, which is accorded limited or no value in statutory reporting, and is one which is:

- a. Specifically identified within the Accounting Practices and Procedures Manual as a nonadmitted asset; or
- b. Not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual.

If an asset meets one of these criteria, the asset shall be reported as a nonadmitted asset and charged against surplus unless otherwise specifically addressed within the Accounting Practices and Procedures Manual. The asset shall be depreciated or amortized against net income as the estimated economic benefit expires. In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of furniture, fixtures, equipment, or supplies, shall be expensed when purchased.

4. This statement amends paragraphs 3 and 6 of SSAP No. 19 to the following:

In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of such assets shall be expensed when purchased.

5. This statement amends paragraph 3 of SSAP No. 29 to the following:

In accordance with the reporting entity's written capitalization policy, prepaid expenses less than a predefined threshold shall be expensed when purchased.

6. This statement amends paragraph 10 of SSAP No. 73 to the following:

In accordance with the reporting entity's written capitalization policy, amounts less than a predefined threshold of medical supplies, pharmaceuticals and surgical supplies, durable medical equipment, furniture, medical equipment and fixtures, and leasehold improvements shall be expensed when purchased.

7. The reporting entity shall maintain a capitalization policy containing the predefined thresholds for each asset class to be made available for the department(s) of insurance.

#### **Disclosures**

8. The financial statements shall disclose if the written capitalization policy and the resultant predefined thresholds changed from the prior period and the reason(s) for such change.

#### **Effective Date and Transition**

9. This statement is effective for years beginning on and after January 1, 2004. Early adoption is encouraged but not required.

#### **RELEVANT ISSUE PAPERS**

- *Issue Paper No. 119—Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82*