Interpretation of the Emerging Accounting Issues Working Group

INT 01-23: Prepaid Legal Insurance Premium Recognition

GUIDANCE ALREADY INCLUDED IN SSAP NO. 54 AND INCORPORATED INTO SSAP NO. 50 AND SSAP NO. 53

INT 01-23 Dates Discussed
March 26, 2001; June 11, 2001

INT 01-23 References
SSAP No. 53—Property Casualty Contracts - Premiums (SSAP No. 53)
SSAP No. 54—Individual and Group Accident and Health Contracts (SSAP No. 54)

INT 01-23 Issue
1. Insurance Company X is a property casualty insurer specializing in insuring and administering prepaid legal expense plans. Insurance Company X is one of a handful of insurance companies, which provide this type of insurance within the United States. The legal plans are established through group policies purchased by companies who in turn offer coverage to electing employees. The plans are offered as an employee benefit to help certificate holders more cost effectively solve their legal problems. For a small monthly premium, employees may consult with and/or receive representation from a plan attorney regarding any one of several covered services (such as will preparation, divorce, child adoption etc).

2. The contracts operate similarly to group health insurance contracts in that:
   • the insurance is offered by the sponsoring organization as an elective employee benefit,
   • the participating employee are considered the certificate holder, while the employer is considered the policyholder,
   • premiums are based on the number of certificate holders,
   • the sponsoring company provides regular enrollment information to the insurer,
   • 90% of attorneys used in delivery of the plan benefits are ARAG plan attorneys, and
   • employees pay premiums through payroll withholding.

3. The group policies are written for a set period, generally one year (and can be up to three-years), with the sponsoring company as the group policyholder. Policies may be canceled by the policyholder with a 45-day notice.

4. Insurance Company X sends monthly premium bills to participating employers based on the previous month’s actual employee count. Monthly premium installments are withheld from the participating employee’s paycheck and are remitted to Insurance Company X, along with a detailed listing of the number of plan participants that month. Premium amounts vary from month to month depending on the number of employees participating in the plan that month.

5. The accounting issue is whether premiums for prepaid legal insurance should follow the guidelines of SSAP No. 53 paragraph 5 or SSAP No. 54 paragraph 2?

INT 01-23 Discussion
6. The working group reached a consensus that the premium recognition requirements of SSAP No. 54 paragraph 2 are more consistent with the operations of prepaid legal insurance as
described in this interpretation. In essence, this consensus represents a “form over substance”
opinion. Prepaid legal is classified in form as property/casualty insurance whereas the substance
of the insurance coverage is more analogous to group health business.

**INT 01-23 Status**

7. No further discussion planned.