



2019 ANNUAL REPORT

PREPAID FUNERAL BENEFITS CONTRACTS

FORM COMPLETION INSTRUCTIONS & DEFINITIONS

GENERAL INSTRUCTIONS

- The 2019 Annual Report is a **consolidated report form** with all three (3) funding types included:
 - **Page 1 - Licensee Name/Address/Contact Information:** Only needs to be completed once, instead of for each funding type. At the top of the page, please check the applicable boxes for the funding types being reported - Cash-Funded (Trust), Insurance-Funded, and/or Annuity-Funded. (The check boxes on Pages 2 and 3 for each funding type should “auto-complete”)
 - **Page 2 - Affidavit of Licensee/Seller:** Only needs to be signed/notarized once, instead of for each funding type. The “Authorized Agent” is the person at the funeral home (owner, manager, office manager, etc.) who is completing the annual report form and certifying its completeness and accuracy. If there is only one person completing/certifying the annual report, then it is not necessary to have a second signature (Affiant 2). Page 2 must be notarized by a Notary Public (a different person from the “Authorized Agent”).
 - **Page 3 - Annual Report Fee Schedule:** To determine the correct annual report fee to remit with the reports, the **gross** (not net) contract totals of all active cash-funded, insurance-funded, and annuity-funded contracts should be combined (aggregated) first before referencing the fee schedule on Page 3. On the 2019 Annual Report form, we have added fields for the gross contracts amounts to be entered for all 3 funding types and a field for the combined total. The combined total of all “active” contracts as of 12-31-19 should be referenced against the fee schedule to ensure that the correct fee is being paid. **Only one (1) check or money order should be issued for the combined total** - not multiple checks/money orders for the different funding types. Referencing the fee schedule separately based on funding type may result in the fee amount paid to the Department either being under-paid or over-paid.
 - **Page 4A - Cash-Funded (Trust) Contracts In-Force:** To be completed by those licensees/funeral homes that have cash/trust pre-need business. On the 2019 Annual Report, we have made the completion of Lines #6 - #13 optional, since they pertain to un-disbursed investment income and surplus funds . . . data that may not be readily available to the person completing the annual report. If that data is available, please go ahead and complete that section. If the total of Line #14 (Amount Collected = Trust Fund Liability) is less than the total of Line #15 (Trust Account Balance = Total Trust Fund Assets), then a detailed reconciliation must be attached to the report. Deposit(s) to the trust account are required when deficiency balances are identified.
REQUIRED AGAIN IN 2019: On prior years’ annual reports, we only asked for the “Amount Collected” on the cash/trust in-force roll-forward. Since the annual report fee is based on the gross contract amounts, we added a column to report the “Gross Contract Amount.”
 - **Page 4B - Insurance-Funded Contracts In-Force:** To be completed by those licensees/funeral homes that have insurance-funded pre-need business. On the 2019 Annual Report, we removed the “Ultimate” Annuity Premiums (previously Line #7 on the Cross-Check), as it was not applicable to the validation of the insurance-funded in-force total.
 - **Page 4C - Annuity-Funded Contracts In-Force:** To be completed by those licensees/funeral homes that have annuity-funded pre-need business.
- **Regarding Pages 4A, 4B, and 4C:** It is only necessary to print and complete the pages that are applicable to the licensee/funeral home for the year ending December 31st. There is no need to print and submit report forms with zero balances on funding types that are not used by the licensee/funeral home.
- The 2019 Annual Report must be mailed in to the Department and must be received by the Department **on or before the deadline date (close of business on Monday, March 16, 2020)**. If the Annual Reports are put in the mail the day before or the day of the deadline, they will most likely be received late. A **late penalty will be assessed** for any and all 2019 Annual Reports that are received by the Department after the deadline date. The 2019 Annual Report should not be faxed in to the Department, since payment is required with the annual report.
- Please remember to attach the annual report fee payment (check or money order - no cash) to the completed, signed, and notarized forms. Any 2019 Annual Reports that are received by the Department without a fee payment, only partially completed, missing signatures/notary certifications, and/or missing attached exhibits/in-force reports, will be considered by the Department as being an incomplete submission. An additional administrative penalty will be assessed for those reports on which multiple items (as referenced above) are missing as of the deadline date.



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- Double check the annual report forms to ensure that all items have been completed, applicable signatures have been included and any notary public certifications have been done, and all exhibits have been attached.

PAGE 2 - AFFIDAVIT OF LICENSEE/SELLER

"Affidavit of Seller" Section - Definition of "Affiant": There was some confusion on prior annual report forms regarding what the term "Affiant" meant. "Affiant" is a fancy word for a "person who affirms" something. To reduce/eliminate the confusion, this has been re-named "Authorized Agent" on the 2019 Annual Report forms. There are two (2) blanks/spaces for authorized agent signatures . . . it is only necessary to have one (1) signature from the licensee/funeral home, unless the licensee/funeral home has more than one person completing and/or certifying the report.

PAGE 3 - ANNUAL REPORT FEE SCHEDULE

Additional comments regarding "gross" versus "net" contract amount: The "gross" contract amount is the "bottom line total" which includes all guaranteed services, guaranteed merchandise, guaranteed or non-guaranteed cash accommodation (advance) items, estimated sales tax, or any other items that may be itemized and included in the pre-need contract total. The "gross" contract amount is the amount that must be totaled up to determine the Annual Report Fee due. "Net" contract amount is the amount remaining after deductions for other pledged policies, burial association policies, funeral home credits or discounts, etc. To correctly calculate the annual report fee due to the Department, enter the Combined Gross Contracts Amount for "active" Cash-Funded (Trust), Insurance-Funded, and Annuity-Funded contracts (as of 12-31-19) in the fields provided to calculate the Combined Total Contracts Amount. The Combined Total Contracts Amount is to be referenced against the fee schedule. Only one (1) check or money order is needed . . . not a separate check or money order for each different funding type.

PAGE 4A - CASH-FUNDED (TRUST) CONTRACTS IN-FORCE

Additional comments regarding the In-Force Roll-Forward - Item (1): This is the BEGINNING contract count and collected contract amount as of January 1st of the year in review. It should be the same totals as were reported as the ending count/amount as of December 31st of the immediate prior year.

Additional comments regarding the In-Force Roll-Forward - Item (2): Net Contracts Proceeds Additions on existing cash-funded contracts for 2019 are any cash funds/payments received and deposited during the year in review on cash-funded (trust) contracts that were issued prior to the current year.

Additional comments regarding the In-Force Roll-Forward - Item (3): The Amount to report for "All New Sales" is the amount collected from the contract purchaser/customer and deposited into the trust account, not the gross contract amount. (Unless the entire amount was collected as a single payment on the front-end.)

Count of "All New Sales" (newly-issued prepaid contracts during the year in review): The Department is comparing the counts of newly-issued prepaid contracts reported and paid on the quarterly statements against the counts reported on the annual reports. If there is a discrepancy between the quarterly reports and the annual reports, we will follow up with the licensee/funeral home to identify the discrepancy.

As mentioned on Page 1, on the 2019 Annual Report, we have made the completion of Lines #6 - #13 optional, since they pertain to un-disbursed investment income and surplus funds . . . data that may not be readily available to the person completing the annual report. If that data is available, please go ahead and complete that section.

"Trust Account Information" Section: The Trustee Bank or Brokerage Firm and any cash-funded (trust) account number(s) under which prepaid funeral benefits cash-funded proceeds have been deposited should be disclosed. If the licensee/funeral home has multiple trust agreements and/or accounts under which funds are located, please attach a complete listing to the annual report.

Self-Reported "Deficiency Balances" on Cash-Funded (Trust) Prepaid Funeral Business: If the licensee/funeral home/cemetery self-reports a "deficiency balance" on its cash-funded (trust) pre-need business as of year-end, then a detailed reconciliation must be attached to the annual report. Arkansas Prepaid Funeral Benefits Law requires that, if there exists a deficiency balances on a cash-funded (trust) prepaid funeral benefits account, the account be "made whole" by the licensee/funeral home/cemetery by depositing funds into the trust account(s) to bring the balance(s) up to a level sufficient to cover any and all existing prepaid funeral benefits contract liabilities.



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Page 4A - Cash-Funded (Trust) Contracts In-Force (continued)

Supporting documentation: The licensee/funeral home/cemetery needs to attach a complete, transactional statement from each trustee bank or brokerage firm for each trust account for the entire year in review.

PAGE 4B - INSURANCE-FUNDED CONTRACTS IN-FORCE

Additional comment regarding required documentation/reporting: The in-force report(s) provided to the licensee/funeral home by its insurance companies/third party administrators (TPAs) is not the same as an **inventory listing** maintained by the licensee/funeral home. The insurance companies'/TPAs' in-force report reflects policies, which is typically not the same thing as pre-need contracts. It is possible for a pre-need contract to be funded by 1, 2 or more insurance policies or annuities, so the policies report may not correctly reflect the number of pre-need contracts in-force as of a specific date. Additionally, a number of insurance companies/TPAs do not have "assignable benefits" totals on their in-force reports.

Additional comments regarding the In-Force Roll-Forward - Item (2) Adjustments to 2018 Annual Report: Should reflect any in-force item totals that were missed on the immediate prior year's annual report, whether they be contracts that should have been included but were not, contracts that actually matured (due to death, cancellation, or outgoing re-assignment/transfer) prior to December 31st that should have been excluded, etc.

Additional comments regarding the In-Force Roll-Forward - Item (3) Gross Contracts Total of ALL NEW SALES for the calendar year 2019: This new contracts count and gross contracts amount should be based on the **actual contract date**, not the policy issue/effective date, if the contract is funded by insurance/annuity policies. Sometimes, the pre-need contract date and the insurance/annuity policy issue/effective date are the same, but in a number of instances, there is a "lag time" of a few days between the date the licensee/funeral home executes the pre-need contract and the date on which the insurance company/TPA issues the policy in its system of record. This may impact contracts counts if the contract was executed toward the end of a quarter/year, but the insurance policy that funds the contract was not issued until after that period end.

Additional comments regarding the In-Force Roll-Forward - Item (4) Gross Contracts Total of ALL TERMINATED CONTRACTS in 2019: Also the same as "matured," this includes contracts that are terminated due to (a) death of the contract purchaser/beneficiary (and performance of the at-need services), (b) cancellation of the pre-need contract at the request of the contract purchaser/beneficiary (as permitted by Arkansas Law, depending on revocability status), or (c) outgoing re-assignment/transfer to a substitute provider (also as permitted by Arkansas Law, depending on revocability status).

If there are multiple insurance companies/TPAs referenced on Page 4B, it is preferred (but not required) that a separate in-force roll-forward page be completed for each funding source. If multiple in-force reports from multiple insurance companies/TPAs are combined/co-mingled into a single in-force roll-forward recap, it may make it more difficult to identify and/or resolve any in-force discrepancies that may be identified on the annual report.

PAGE 4C – ANNUITY-FUNDED CONTRACTS IN-FORCE

Please refer to the comments under the "Page 4B - Insurance-Funded Contracts In-Force" section above. Items are also applicable to the annuity-funded report.

****IMPORTANT****

If you have any questions regarding the completion of these Annual Report forms, please don't hesitate to call or e-mail the Arkansas Insurance Department's Prepaid Funeral Benefits Division. The "generic" division e-mail address is AID.Prepaid@arkansas.gov - e-mails sent to this address will be received by all Prepaid Funeral Benefits Division personnel. Or, you may call the AID main switchboard line at (501) 371-2600 and request the Prepaid Funeral Benefits Division. We will be glad to answer any questions you might have.

The 2019 Annual Reports should be mailed to:
*****NEW ADDRESS AS OF FEBRUARY 2020*****

Arkansas Insurance Department
1 Commerce Way, Building 4
Little Rock, AR 72202-2075
ATTN: Prepaid Funeral Benefits Division (5th Floor)