

STATEMENT OF ADDITIONAL INFORMATION

DATED May 1, 2019

STATE FARM VARIABLE DEFERRED ANNUITY POLICY

**STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY VARIABLE ANNUITY
SEPARATE ACCOUNT
OF STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY
P.O. Box 2307**

Bloomington, Illinois 61702-2307

This Statement of Additional Information expands upon subjects discussed in the current prospectus for the variable deferred annuity policy (the "Policy") offered by State Farm Life and Accident Assurance Company ("State Farm," "we," "us," or "our"). You may obtain a copy of the prospectus dated May 1, 2019 by calling 1-888-702-2307 (Toll free) or by writing to us at the above address. Capitalized terms in this Statement of Additional Information have the same meanings as in the prospectus for the Policy.

**THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT A PROSPECTUS AND
SHOULD BE READ ONLY IN CONJUNCTION WITH THE PROSPECTUSES
FOR THE POLICY AND THE FUNDS.**

Printed in U.S.A.

STATEMENT OF ADDITIONAL INFORMATION
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ADDITIONAL POLICY PROVISIONS

The Policy

The Policy contains the Basic Plan, any amendments, endorsements, and riders, and a copy of the application. The Policy is the entire contract.

Only an officer has the right to change the Policy. No other person has the authority to change the Policy or to waive any of its terms. All endorsements, amendments, or riders must be signed by an officer to be valid.

Ownership

You, as the Owner, are named in the application. You may exercise any provision of the Policy only by sending Variable Operation a written request and while the Annuitant is alive. Your Successor Owner is named in the application if you are not the Annuitant.

You may change the Owner or Successor Owner by sending Variable Operation a written request while the Annuitant is alive. We have the right to request the Policy to make the change on it. The change will take effect the day you sign the request, but the change will not affect any action we have taken before we receive the request. A change of Owner or Successor Owner does not change the beneficiary designation. No more than two Owners and no more than two Successor Owners can be named.

Incontestability

We will not contest the Policy. Any rider has its own incontestability provision.

Error in Age or Sex

If the Annuitant's, Payee's, or second designated person's date of birth or sex is not correct, every benefit will be such as premiums paid would have bought at the correct age or sex, based on the rates at the date of issue. We may require proof of the Annuitant's, Payee's, second designated person's age and sex before annuity income payments start. Any overpayment with compound interest at 6% a year will be charged against the Policy. This amount will be deducted from any annuity income payments due after the error is found. Any underpayment with compound interest at 6% a year will be paid to you in one sum.

Participation

We do not expect to pay dividends on the Policy. However, we may apportion and pay dividends each year. All dividends apportioned will be derived from the divisible surplus of our participating business. Any such dividends will be paid only at the end of the Policy Year. There is no right to a partial or pro rated dividend prior to the end of the Policy Year. We will transfer the dividend to the Policy Accumulation Value at the end of the Policy Year. Unless specified by you, the amount transferred is allocated to each Subaccount and the Fixed Account on a pro-rata basis.

Assignment

You may assign a nonqualified Policy or any interest in it. We will recognize an assignment only if it is in writing and filed with us. We are not responsible for the validity or effect of any assignment. An assignment may limit the interest of any Beneficiary.

NET INVESTMENT FACTOR

The Net Investment Factor is an index applied to measure the investment performance of a Subaccount from one Valuation Period to the next. The Net Investment Factor for any Subaccount for any Valuation Period is equal to (1) divided by (2) and subtracting (3) from the result, where:

- (1) is the result of:
 - (a) the Net Asset Value Per Share of the Fund held in the Subaccount determined at the end of the current Valuation Period; plus
 - (b) the per share amount of any dividend or capital gain distribution made by the Fund held in the Subaccount, if the "ex-dividend" date occurs during the Valuation Period; plus or minus
 - (c) a per share charge or credit for any taxes reserved for
- (2) is the Net Asset Value Per Share of the Fund held in the Subaccount, determined at the end of the prior Valuation Period,
- (3) is a daily factor representing the mortality and expense risk charge deducted from the Subaccount adjusted for the number of days in the Valuation Period. Such charge will not exceed an annual rate of 1.25% of the daily net asset value of the Variable Account.

ANNUITY PAYMENT PROVISIONS

Amount of Fixed Annuity Payments. On the Annuity Date, the amount you have chosen to apply to provide fixed annuity income payments will be applied under the annuity income option you have chosen. The annuity option payment factor in effect on the Annuity Date times that amount will be the dollar amount of each payment. Each of these payments will be equal and will not change.

The annuity option payment factor used to determine the amount of the fixed annuity payments will not be less than the guaranteed minimum annuity payment factors shown in the Policy.

Amount of Variable Annuity Payments. These income payments will vary in amount. The dollar amount of each payment attributable to each Subaccount is the number of Annuity Units for each Subaccount times the Annuity Unit Value of that Subaccount. The sum of the dollar amounts for each Subaccount is the amount of the total variable annuity income payment. The Annuity Unit Value for each payment will be determined no earlier than five Valuation Days preceding the date the annuity income payment is due. We guarantee the payment will not vary due to changes in mortality or expenses.

Annuity Units. On the Annuity Date, the number of Annuity Units for an applicable Subaccount is determined by multiplying (1) by (2) and dividing the result by (3), where:

- (1) is the part of the Cash Surrender Value or Death Benefit on that date applied under that Subaccount;
- (2) is the Guaranteed Minimum Payment Factor for the Annuity Option chosen; and
- (3) is the Annuity Unit Value for the Subaccount at the end of the Valuation Period encompassing that date.

Annuity Unit Value. The Annuity Unit Values for each Subaccount were arbitrarily set initially at \$10 when that Subaccount began operation. Thereafter, the Annuity Unit Value for every Valuation Period is the Annuity Unit Value at the end of the previous Valuation Day times the Net Investment Factor times the Annuity Interest Factor. The Annuity Interest Factor is used to neutralize the Assumed Investment Rate of 3 ½% a year used to determine the guaranteed minimum payment factors. The Assumed Investment Rate is significant in determining the amount of each variable annuity income payment and the amount by which each variable annuity income payment varies from one payment to the next.

ILLUSTRATION OF CALCULATION OF ANNUITY UNIT VALUE

1.	Accumulation unit value for current valuation period	11.12
2.	Accumulation unit value for immediately preceding valuation period	11.10
3.	Annuity unit value for immediately preceding valuation period	20.00
4.	Factor to compensate for the assumed investment rate of 3.5%9999
5.	Annuity unit value of current valuation period ((1) / (2)) x (3) x (4)	20.03

ILLUSTRATION OF VARIABLE ANNUITY PAYMENTS

1.	Number of accumulation units at Maturity Date	10.000
2.	Accumulation unit value	11.12
3.	Adjusted Policy Accumulation Value (1)x(2)	111.200
4.	Monthly annuity payment per \$1,000 of adj. Policy Accumulation Value	5.82
5.	Monthly annuity payment (3)x(4) / 1,000	647.18
6.	Annuity unit value at Maturity Date	20.03
7.	Number of annuity units (5)/(6)	32.3105
8.	Assume annuity unit value at the end of first month equal to	20.20
9.	First monthly annuity payment (7)x(8)	652.67
10.	Assume annuity unit value at the end of second month equal to	19.90
11.	Second monthly annuity payment (7)x(10)	642.98
12.	Assume annuity unit value at the end of third month equal to	20.50
13.	Third monthly annuity payment (7)x(12)	662.37

PAYMENT OF PROCEEDS UPON DEATH OF OWNER OR ANNUITANT

Death of Owner

The Code requires the following distributions under Non-Qualified annuity when you die.

- (1) If you die before the Annuity Date, you are not the Annuitant, and you either have not named a Successor Owner or your named Successor Owner is not a living natural person, the Cash Surrender Value must be paid within 5 years after your date of death.
- (2) If you die before the Annuity Date, you are the Annuitant, and you either have not named any beneficiary or your named beneficiary is not a living natural person, the death benefit must be paid within 5 years after your date of death.
- (3) If you die before the Annuity Date, you are not the Annuitant, and your sole Successor Owner is a person other than your spouse, your Successor Owner may elect to have the Cash Surrender Value paid under an annuity option or any other method of payment then provided by us other than an interest only method of payment. The election must be made and payments must start within one year after your death and must not extend beyond the life or life expectancy of your Successor Owner. If no election is made within this time, distribution will be made within five years after your date of death.
- (4) If you die before the Annuity Date, you are the Annuitant, and your sole named surviving primary beneficiary is a person other than your spouse, your surviving primary beneficiary may elect to have the Death Benefit paid under an annuity option or any other method of payment then provided by us other than an interest only method of payment. The election must be made and payments must start within one year after your death and must not extend beyond the life or life expectancy of your primary beneficiary. If no election is made within this time, distribution will be made within five years after your date of death.

- (5) If you die before the Annuity Date, you are not the Annuitant, and your sole Successor Owner is your surviving spouse, your surviving spouse becomes the Owner. The right of a spouse to continue the Policy, and all Policy provisions relating to spousal continuation are available only to a person who meets the definition of “spouse” under Federal law. Consult a tax advisor for more information on this subject.
- (6) If you die before the Annuity Date, you are the Annuitant, and your surviving spouse is your sole named primary beneficiary, your spouse will replace you as Owner and may replace you as Annuitant. If your spouse does not elect to replace you as Annuitant, the Death Benefit must be paid to your spouse under an annuity option or any other method of payment then provided by us for an owner. For purposes of the preceding sentence, the election must be made, payments must start within one year after your death, and must not extend beyond your spouse’s life or life expectancy; however, if your spouse does not choose a method of payment within this time, distribution will be made under Annuity Option 1—Life Annuity.
- (7) If you die on or after the Annuity Date and you are not the Annuitant, any remaining payments must be paid to your Successor Owner at least as fast as the method of payment in effect at your death.
- (8) If you die on or after the Annuity Date and you are the Annuitant, any remaining payments must be paid to the beneficiary at least as fast as the method of payment in effect at your death.

If you are not a living natural person, the Annuitant will be treated as the Owner for purposes of this provision. If you are not a living natural person and there is a change in the Annuitant, such change shall be treated as the death of the Owner for purposes of this provision. If the Policy has two owners, the first death of either owner is treated as the death of the owner for purposes of this provision. For purposes of this provision, the amount of any distribution will be determined on that date of such distribution. Notwithstanding anything in the Policy to the contrary, the surviving joint owner will be treated as the Successor Owner of the Policy.

Other rules apply to Qualified Policies.

Death of Annuitant

Death of Annuitant Who is not an Owner. If the Annuitant dies before the Annuity Date and the Annuitant is not an Owner, the Death Benefit will be paid as provided in the Beneficiary Provisions of the Policy. If the method of payment chosen is not available or no method of payment is chosen, payment will be in one sum.

If the Annuitant dies on or after the Annuity Date while you are alive, any remaining payments must be paid to you at least as fast as the method of payment in effect on the Annuitant’s date of death.

Beneficiary Designation. This is as shown in the application. It includes the name of the beneficiary and the order and method of payment. If you name “estate” as a beneficiary, it means the executors or administrators of the last survivor of you and all beneficiaries. If you name “children” of a person as a beneficiary, only children born to or legally adopted by that person as of the Annuitant’s date of death will be included.

We may rely on an affidavit as to the ages, names, and other facts about all beneficiaries. We will incur no liability if we act on such affidavit.

Change of Beneficiary Designation. You may make a change while the Annuitant is alive by sending us a request. The change will take effect the date the request is signed and will replace previous beneficiary designations for the Policy, but the change will not affect any action we have taken before we receive the request. We have the right to request your Policy to make the change.

After the Annuitant’s death, anyone who has the right to make a withdrawal may change the method of payment or may select one of the annuity options, and may name a successor to their interest. The successor payee may be their estate.

Order of Payment. When the Annuitant dies (1) before the Annuity Date and a death benefit is payable or (2) on or after the Annuity Date, you are the Annuitant, and payments continue to the beneficiary, we will make such payment(s) in equal shares to the primary beneficiaries living when payment is made. If a primary dies after the first payment is made, we will pay that primary's unpaid share in equal shares to the other primaries living when payment is made. If the last primary dies, we will make payment in equal shares to the successor beneficiaries living when payment is made. If a successor dies while receiving payments, we will pay that successor's unpaid share in equal shares to the other successors living when payment is made. If, at any time, no primary or successor is alive, we will make a one sum payment in equal shares to the final beneficiaries. If, at any time, no beneficiary is living, we will make a one sum payment to you, if living when payment is made. Otherwise, we will make a one sum payment to the estate of the last survivor of you and all beneficiaries. "When payment is made" means (1) the date that a periodic payment is due or (2) the date that a request is signed for a cash withdrawal or a one sum payment. You may change this order of payment by sending us a request while the Annuitant is alive.

ADDITION, DELETION OR SUBSTITUTION OF INVESTMENTS

Where permitted by applicable law, we may:

- (1) create new separate accounts;
- (2) combine separate accounts, including the Variable Account;
- (3) add new Subaccounts to or remove existing Subaccounts from the Variable Account or combine Subaccounts;
- (4) make any Subaccount available to such classes of policies as we may determine;
- (5) add new funds or remove existing funds;
- (6) substitute new funds for any existing Fund if shares of the Fund are no longer available for investment or if we determine investment in a Fund is no longer appropriate in the light of the purposes of the Variable Account;
- (7) deregister the Variable Account under the Act if such registration is no longer required; and
- (8) operate the Variable Account as a management investment company under the Act or in any other form permitted by law.

The investment policy of the Variable Account will only be changed with the approval of the insurance supervisory official of the state in Illinois, our State of domicile. The investment policy of the Variable Account is to invest in one or more investment companies. The process for such approval is on file.

SAFEKEEPING OF ACCOUNT ASSETS

State Farm holds the title to the assets of the Subaccount. The assets are kept physically segregated and held separate and apart from State Farm's General Account assets and from the assets in any other separate account.

Records are maintained of all purchases and redemptions of Fund shares held by each of the Subaccounts.

A fidelity bond in the amount of \$5 million covering State Farm's directors, officers, and employees has been issued by National Union Fire Insurance Company.

DISTRIBUTION OF THE POLICIES

State Farm VP Management Corp., One State Farm Plaza, Bloomington, Illinois 61710, acts as the principal underwriter of the Policies. State Farm VP Management Corp. is affiliated with State Farm Life and Accident Assurance Company because each company is directly or indirectly owned by State Farm Mutual Automobile Insurance Company. State Farm VP Management Corp. received \$1,533 in 2018, \$8,161 in 2017 and \$30,392 in 2016 as commissions for serving as principal underwriter of the Policies. State Farm VP Management Corp. did not retain any commissions in 2018, 2017 and 2016.

We discontinued new sales of the Policies during the latter half of 2008; however, the Company will continue to administer existing Policies and will continue to accept premiums and permit transfers for such Policies.

EXPERTS

The statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2018, 2017 and 2016, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

As stated in their report, these financial statements were prepared by the Company in conformity with the accounting practices prescribed or permitted by the Illinois Department of Insurance (statutory basis), which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The effects on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material. Therefore, their report contains an adverse opinion on the financial statements of the Company in conformity with GAAP, but an unqualified opinion in conformity with statutory basis accounting.

The statements of assets and contract owners' equity of the State Farm Life and Accident Assurance Company Variable Annuity Separate Account at December 31, 2018 and the results of its operations for the year then ended, and the changes in its contract owners' equity for each of the two years in the period ended December 31, 2018, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

OTHER INFORMATION

A registration statement has been filed with the SEC under the Securities Act of 1933, as amended, with respect to the Policies discussed in this Statement of Additional Information. Not all the information set forth in the registration statement, amendments and exhibits thereto has been included in this Statement of Additional Information. Statements contained in this Statement of Additional Information concerning the content of the Policies and other legal instruments are intended to be summaries. For a complete statement of the terms of these documents, reference should be made to the instruments filed with the SEC.

FINANCIAL STATEMENTS

The audited statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2018, 2017, and 2016, as well as the Report of the Independent Registered Public Accounting Firm, appears in the SAI. Our financial statements should be considered only as bearing on our ability to meet our obligations under the Policies. **They should not be considered as bearing on the investment performance of the assets held in the Variable Account.**

Statements of assets and contract owners' equity of the State Farm Life and Accident Assurance Company Variable Annuity Separate Account at December 31, 2018, and the results of its operations for the year then ended, and the changes in its contract owners' equity for each of the two years in the period ended December 31, 2018, also appear in the SAI.

The audits were conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

State Farm Life and Accident Assurance Company

(a wholly owned subsidiary of State Farm
Mutual Automobile Insurance Company)

Report on Audits of Financial Statements—Statutory Basis

For the Years Ended December 31, 2018, 2017, and 2016

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

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Report of Independent Auditors

To the Board of Directors of
State Farm Life and Accident Assurance Company

We have audited the accompanying statutory financial statements of State Farm Life and Accident Assurance Company (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for each of the three years in the period ended December 31, 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us



The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2018.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 2.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 22, 2019

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Admitted Assets, Liabilities, Capital and Surplus—Statutory Basis (in thousands)
As of December 31, 2018 and 2017

ADMITTED ASSETS	2018	2017
Bonds:		
United States government	\$ 151,039	\$ 158,862
Canadian government and subdivisions	3,494	3,493
Other governmental units	875,248	831,437
Industrial and other	1,695,672	1,610,596
	<u>2,725,453</u>	<u>2,604,388</u>
Common stocks	507	622
Contract loans	171,302	167,279
Cash (overdraft)	(1,000)	316
Cash equivalents	45,936	46,048
Accounts receivable—investment sales	2	44
	<u>216,747</u>	<u>214,309</u>
Total cash and invested assets	<u>2,942,200</u>	<u>2,818,697</u>
Net deferred tax asset	14,358	11,251
Premiums deferred and uncollected	1,325	1,183
Investment income due and accrued	26,459	26,452
Other assets	941	936
Assets held in separate accounts	50,023	57,277
Total admitted assets	<u>\$3,035,306</u>	<u>\$2,915,796</u>
LIABILITIES	2018	2017
Aggregate reserves for life contracts	\$2,074,035	\$1,982,479
Liability for deposit type contracts	263,165	257,254
Policy and contract claims	10,986	10,243
Policyholders' dividends due and unpaid	98	95
Dividends to policyholders payable in the following year	18,839	18,639
Advance premiums, deposits and other policy and contract liabilities	1,219	2,710
Interest maintenance reserve (IMR)	1,628	2,570
Commissions payable	833	709
Federal income taxes payable to affiliates	7,993	11,819
Postretirement benefits	15,066	14,879
Agent termination benefits	24,300	26,981
Payable to parent, subsidiaries and affiliates	4,066	3,309
Other liabilities	11,323	12,948
Liabilities related to separate accounts	50,023	57,277
Asset valuation reserve (AVR)	11,537	10,699
Total liabilities	<u>2,495,111</u>	<u>2,412,611</u>
CAPITAL AND SURPLUS		
Common stock, \$100 par value; 10,000 shares authorized, issued and outstanding	1,000	1,000
Paid-in surplus	2,000	2,000
Unassigned surplus	537,195	500,185
Total capital and surplus	<u>540,195</u>	<u>503,185</u>
Total liabilities, capital and surplus	<u>\$3,035,306</u>	<u>\$2,915,796</u>

The accompanying notes are an integral part of these financial statements.

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Operations and Change in Capital and Surplus—Statutory Basis (in thousands)
For the Years Ended December 31, 2018, 2017, and 2016

SUMMARY OF OPERATIONS	2018	2017	2016
Income:			
Premiums and annuity considerations	\$245,330	\$239,543	\$245,175
Net investment income	105,867	103,658	101,777
Other income	1,932	2,249	2,209
	<u>353,129</u>	<u>345,450</u>	<u>349,161</u>
Benefits and other expenses:			
Death benefits	64,125	56,800	57,466
Surrender benefits and other fund withdrawals	60,409	49,450	46,490
Other benefits and claims	24,008	21,968	24,871
Net transfers to or (from) separate accounts	(3,384)	(2,231)	(2,830)
Increase in policy and contract reserves	91,556	102,858	106,098
Commissions	15,715	15,381	15,244
General insurance expenses	33,788	34,513	34,952
Taxes, licenses and fees	6,527	4,993	4,564
	<u>292,744</u>	<u>283,732</u>	<u>286,855</u>
Net gain from operations before dividends to policyholders and federal and foreign income taxes	60,386	61,718	62,306
Dividends to policyholders	18,429	17,956	18,336
Net gain from operations before federal and foreign income taxes	41,957	43,762	43,970
Federal and foreign income taxes incurred (excluding capital gains)	12,255	17,246	14,196
Net gain from operations before net realized capital gains or (losses)	29,702	26,516	29,774
Net realized capital gains (losses), net of transfers to the IMR less capital gains tax	(201)	(742)	(1,058)
Net income (loss)	<u>\$ 29,501</u>	<u>\$ 25,774</u>	<u>\$ 28,716</u>
CAPITAL AND SURPLUS ACCOUNT	2018	2017	2016
Common stock: Balance at beginning and end of year	\$ 1,000	\$ 1,000	\$ 1,000
Paid-in Surplus: Balance at beginning and end of year	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Unassigned surplus:			
Balance at beginning of year	500,185	486,258	461,577
Net income	29,501	25,774	28,716
Change in net deferred income tax	2,997	(21,414)	95
Change in net unrealized capital gains (losses) less capital gains tax	(131)	(12)	—
Change in nonadmitted assets	616	13,078	(3,182)
Change in asset valuation reserve	(838)	(1,042)	(722)
Additional liability for termination benefits	4,865	(2,457)	(226)
Balance at end of year	<u>537,195</u>	<u>500,185</u>	<u>486,258</u>
Total capital and surplus	<u>\$540,195</u>	<u>\$503,185</u>	<u>\$489,258</u>

The accompanying notes are an integral part of these financial statements.

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Cash Flows—Statutory Basis (in thousands)
For the Years Ended December 31, 2018, 2017, and 2016

CASH FLOW	2018	2017	2016
Cash from operations:			
Premiums collected net of reinsurance	\$ 231,492	\$ 227,460	\$ 233,761
Net investment income	99,935	97,306	95,587
Other income	617	569	579
Benefits and loss related items	(116,429)	(94,899)	(90,969)
Net transfers from Separate Accounts	3,355	2,256	2,861
Commissions, expenses paid and other deductions	(53,182)	(53,646)	(51,304)
Dividends paid to policyholders	(1,799)	(1,666)	(1,667)
Federal and foreign income taxes paid	(16,428)	(16,683)	(8,298)
Net cash from operations	<u>147,561</u>	<u>160,697</u>	<u>180,550</u>
Cash from investments:			
Proceeds from investments sold, matured or repaid:			
Bonds	181,082	161,163	169,890
Other	42	—	—
Total investment proceeds	<u>181,124</u>	<u>161,163</u>	<u>169,890</u>
Cost of investments acquired (long term only):			
Bonds	302,349	305,249	303,543
Miscellaneous applications	—	44	—
Total investments acquired	<u>302,349</u>	<u>305,293</u>	<u>303,543</u>
Increase in contract loans and premium notes	(2,495)	(4,176)	(5,397)
Net cash from investments	<u>(118,730)</u>	<u>(139,954)</u>	<u>(128,256)</u>
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities	(29,668)	(26,861)	(25,208)
Other cash provided (applied)	(591)	1,880	(189)
Net cash from financing and miscellaneous sources	<u>(30,259)</u>	<u>(24,981)</u>	<u>(25,397)</u>
Net change in cash, cash equivalents, and short-term investments	(1,428)	(4,238)	26,897
Cash, cash equivalents, and short-term investments, beginning of year	46,364	50,602	23,705
Cash, cash equivalents, and short-term investments, end of year	<u>44,936</u>	<u>46,364</u>	<u>50,602</u>
Supplemental disclosures of cash flow information for non-cash transactions:			
Deposit type contracts and interest credited	\$ 28,799	\$ 30,872	\$ 31,174
Dividends held or used to pay premiums	16,427	16,390	16,995
Bond exchanges	26,445	13,084	25,222
Capitalized loan interest	6,518	6,352	6,215
Waived premiums	2,667	2,581	2,349
Common stock exchanges	50	637	—

The accompanying notes are an integral part of these financial statements.

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, (in thousands)

1. Nature of Business Operations

State Farm Life and Accident Assurance Company (the Company), domiciled in Illinois, is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (SFMAIC). The Company is licensed in four states and primarily markets individual life and annuity products through an exclusive independent contractor agency force and by phone and internet. The Company's individual life insurance products include traditional whole life, universal life, term insurance and variable universal life contracts, which together account for approximately 92% of premium revenue in 2018, 91% in 2017, and 86% in 2016. Individual annuity products including variable annuity contracts account for an additional 8% in 2018, 9% in 2017, and 14% in 2016. The Company also writes a small amount of employee group life.

The insurance industry is highly regulated and deals in contractual obligations. As such, the industry is subject to the risk of changes resulting from legislative enactments, legal interpretations and regulatory actions not anticipated in pricing the product.

2. Summary of Significant Accounting Practices

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Illinois Department Insurance.

The Illinois Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Illinois for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Illinois insurance law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed practices by the state of Illinois. During 2018, 2017, and 2016, the Company did not have any permitted practices.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Certain amounts applicable to prior year have been reclassified to conform to the current year presentation. Management has evaluated subsequent events for recognition or disclosure through February 22, 2019, the date these financial statements were available for issuance.

The following discussion describes significant accounting practices and highlights the significant differences between statutory accounting practices followed by the Company and generally accepted accounting principles (GAAP). The effect of these differences has not been determined, but is presumed to be material.

A. Investments

Bonds and stocks are stated at values prescribed by the NAIC. Bonds not backed by other loans, except those in or near default (i.e., NAIC 6), are stated at amortized cost using the scientific method. Bonds not backed by other loans that are in or near default are stated at the lower of amortized cost using the scientific method or fair value. Loan-backed securities, except those in or near default, are stated at amortized cost using the scientific method including anticipated prepayments at the date of purchase. Loan-backed securities that are in or near default are stated at the lower of amortized cost using the scientific method or fair value. Prepayment assumptions for loan-backed securities are obtained from ICE Data Pricing and Reference Data

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

LLC and Bloomberg. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective adjustment method. There have been no changes from the retrospective adjustment method to the prospective method of valuing loan-backed securities. Stocks are stated at fair value. Prices published by the Securities Valuation Office (SVO) of the NAIC or prices from pricing vendors are used to calculate fair value. Where a price is not available from the SVO or pricing vendors, management's best estimate of fair value is used.

Under GAAP, equity securities that have readily determinable fair values would be classified into two categories: trading and available-for-sale. Debt securities would be classified into three categories: held-to-maturity, trading and available-for-sale. Held-to-maturity securities would be reported at amortized cost. Trading securities would be reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities would be reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of unassigned surplus.

Registered money market mutual funds are reported as cash equivalents and are stated at fair value.

Short-term investments, which represent investments with maturities of less than one year, are stated at amortized cost.

Contract loans are stated at the aggregate of unpaid loan balances, which are not in excess of cash surrender values of related policies. Any loans in excess of cash surrender value are non-admitted in accordance with Statement of Statutory Accounting Principles (SSAP) No. 49.

The Company's interest in the State Farm Liquidity Pool, LLC (the Pool), is carried at its underlying audited GAAP equity, and is reported as a cash equivalent.

Investment income is recorded when earned. Due and accrued investment income that is over 90 days past due or when collection is in doubt is excluded from surplus. No investment income due and accrued was excluded from surplus in 2018 or 2017. Realized gains and losses on sale of investments are determined by the specific identification method. Net realized gains or losses are shown net of federal income tax. Unrealized capital gains and losses are recorded to unassigned surplus net of deferred income tax.

For any decline in the fair value of a bond that is considered to be other-than-temporary, a valuation adjustment is made and recognized as a realized capital loss.

B. Premiums Deferred and Uncollected

Premiums deferred and uncollected represent modal premiums, either due directly from policyholders and uncollected or not yet due, where policy reserves have been provided on the assumption that the full premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

C. Aggregate Reserves for Life Contracts

Policy reserves on life insurance are based on statutory mortality and interest requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging primarily from 3% to 5.5%. The use of a modified reserve basis partially offsets the effect of immediately

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging primarily from 3.5% to 7%. Under GAAP, reserves are based on mortality, lapse, withdrawal and interest rate assumptions that are based on Company experience.

D. Policyholders' Dividends

All of the Company's individual and group life insurance business is written on the participating basis. Subject to the provisions of law regarding return of excess premiums, the Board of Directors may authorize such dividends to policyholders upon such terms and conditions as may, in their judgment, be proper, just and equitable. The amount of dividends to be paid to policyholders is determined annually by the Company's Board of Directors. Amounts declared and estimated to be payable to policyholders in the forthcoming year have been included in the accompanying financial statements as a liability based on approved dividend scales. Under GAAP, dividends are anticipated and may be considered as a planned contractual benefit when computing the value of future policy benefits. For the years ended December 31, 2018, 2017, and 2016, respectively, premiums under individual and group life participating policies were \$226,843, 218,462, and \$209,986 or 100% of total individual and group life premiums earned. The Company's Statements of Operations for 2018, 2017, and 2016 includes \$18,429, \$17,956, and \$18,336 of policyholder dividends, respectively.

The Company absolutely and irrevocably commits and guarantees that, of the total dividends apportioned for the period beginning January 1, 2019 and ending December 31, 2019, it will pay or cause to be applied during 2019, in all events, annual dividends for participating individual life and annuity policies issued after December 31, 1983, in an amount not less than \$8,000. This guarantee covers policies in the aggregate only and does not confer a dividend guarantee on any specific policy.

E. Federal Income Taxes

The Company files a consolidated federal income tax return with the following companies:

State Farm Mutual Automobile Insurance Company	State Farm Investment Management Corp. (SFIMC)
State Farm Fire and Casualty Company	State Farm VP Management Corp.
State Farm General Insurance Company	State Farm Bank, FSB
State Farm Life Insurance Company	State Farm International Holding Company
State Farm Health Insurance Company	Plaza One Realty Company
State Farm Lloyds	Insurance Placement Services, Inc.
State Farm Indemnity Company	State Farm Realty Investment Company
State Farm Guaranty Insurance Company	Oglesby Reinsurance Company
State Farm Florida Insurance Company	Dover Bay Specialty Insurance Company
State Farm International Services, Inc.	HiRoad Assurance Company
State Farm Lloyds, Inc.	

The consolidated federal income tax liability is apportioned to each company in accordance with an agreement authorized by each Company's Board of Directors or Underwriters. The allocation is based upon separate return calculations after consolidating adjustments for regular and, for only 2017, alternative minimum tax (AMT) with current credit for net losses and tax credits used by the consolidated group. Intercompany federal income tax balances are settled as follows: 1) intercompany federal income tax receivables and payables which relate to the current tax year will be settled within ninety (90) days; 2) any

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

refunds of federal income tax will be settled within thirty (30) days of receipt of the refund; and 3) any payments of federal income tax due will be settled within thirty (30) days of payment of the tax due.

Under NAIC SAP, the deferred tax assets (DTAs) are reduced by a valuation allowance if it is more likely than not that some portion of the DTAs will not be realized. In addition, the gross DTAs are subject to an admissibility test. The admissibility test has three parts. The first part of the admissibility test determines the loss carryback potential for temporary differences that reverse corresponding to Internal Revenue Service (IRS) tax loss carryback provisions, not to exceed three years. The second part of the admissibility test applies reversal periods and adjusted capital and surplus limitations based upon risk based capital (RBC) thresholds to determine the admitted portion of DTAs expected to be realized during a period not to exceed three years. The third part of the test permits admission of gross DTAs to the extent of gross deferred tax liabilities (DTLs). Any changes in DTAs and DTLs are recognized as a separate component of the change in unassigned surplus.

The change in the net DTA/DTL is reflected in capital and surplus under NAIC SAP whereas under GAAP, the change would be reported in income. Admissibility testing may result in a charge to capital and surplus for non-admitted portions of a DTA. Under GAAP valuation allowances relating to DTAs would be charged to income.

Under NAIC SAP, the calculation of state income taxes incurred is limited to taxes due on the current year's taxable income and any adjustments due to changes in prior year returns. State income tax is reported as a component of taxes, licenses, and fees and is an element of pre-tax book income; deferred state income taxes are not recorded. Under GAAP, there is no admissibility test. In addition, DTAs under GAAP include all tax components (federal, state, foreign, current and deferred); changes in deferred income taxes are recorded as a component of the total tax provision instead of a direct adjustment to unassigned surplus.

The Company complies with the applicable income tax reporting and disclosure requirements pursuant to SSAP No. 101 for any uncertain tax positions. SSAP No. 101 requires that tax loss contingencies, including the related interest and penalties, for current and prior years be computed in accordance with SSAP No. 5R with certain modifications. A tax loss contingency is recorded only if it is more likely than not that such a loss has been incurred. If the Company determines that no tax loss contingency should be recorded, then analysis is completed to determine if a disclosure within the financial statements is required. Per SSAP No. 101, a disclosure is made when it is reasonably possible that the total liability for the income tax loss contingency will significantly increase within 12 months of the reporting date. The Company evaluates material tax positions taken that are 50% or less likely to result in a tax loss, and therefore are not recorded, to determine whether a disclosure should be made simply because the position is significant.

The provision for federal income taxes is based on the Internal Revenue Code of 1986, as amended.

F. Interest Maintenance Reserve and Asset Valuation Reserve

The Interest Maintenance Reserve (IMR) and Asset Valuation Reserve (AVR) are maintained in accordance with requirements prescribed by the NAIC. Under the IMR, realized investment gains and losses, net of tax, attributable to interest rate changes on short-term and long-term fixed income investments are deferred and held in the IMR account. Such gains and losses are then amortized over the remaining original maturity of the investment sold and are reflected in the Company's Statements of Operations.

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

The AVR provides a reserve for credit related and equity risks in a broad range of invested assets including bonds, stocks, mortgage loans, real estate, and other invested assets. Changes in the AVR are charged or credited directly to unassigned surplus. The IMR and AVR are not calculated under GAAP.

G. Separate Accounts

The Company has established individual variable life and individual variable annuity separate accounts as unit investment trusts registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and has issued individual variable universal life and individual variable annuity contracts as supported by Illinois Insurance Code 215 ILCS 5/245.21. A separate account is an accounting entity segregated as a discrete operation within an insurance company. Deposits received in connection with these contracts are placed in the Company's separate accounts and general account within certain limits.

Assets held in separate accounts under variable life and variable annuity contracts are invested as designated by the contract holder in units of the subaccounts of the separate accounts. The subaccounts invest those assets in shares of mutual funds.

Separate account assets are reported at Net Asset Value (NAV) and liabilities are recorded at amounts equal to contract holder assets. Contract holders are the only persons having rights to any assets in the separate accounts or to income arising from such assets. See Note 5 for additional disclosures.

The Company does not engage in security lending transactions within the separate accounts.

H. Recognition of Premiums and Annuity Considerations and Related Expenses

Scheduled life premiums are recognized as revenue over the premium paying period of the related policies. Flexible and single premiums and annuity considerations are recognized as revenues as received. Premiums received prior to the date of the financial statement which are due on or after the next modal premium date are recognized as a liability on the balance sheet. Acquisition costs, such as commissions and other costs related to the new business are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products are recorded as revenue when received. Under GAAP, the premiums for universal life contracts are recorded as increases to liabilities and revenue is recognized as mortality and other assessments are made to policyholders. Additionally, acquisition costs under GAAP are capitalized and amortized over the policy period.

I. Non-admitted Assets

Certain assets designated as "non-admitted" assets, principally non-admitted DTAs, aggregating \$27,282 and \$27,898 at December 31, 2018 and 2017, respectively, are not recognized by statutory accounting practices. These assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. There is no such concept under GAAP.

J. Stockholder Dividends

The maximum amount of dividends which can be paid by state of Illinois insurance companies to shareholders without the prior approval of the Insurance Commissioner is subject to restrictions relating to statutory surplus and net income.

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

K. Guaranty Fund Assessments

As of December 31, 2018 and 2017, liabilities of \$148 have been recorded for guaranty fund assessments each year. These amounts, when recorded, represent liabilities recorded for all states in which the Company operates. Guaranty fund assessments are paid when called by the state guaranty fund associations, generally within a one to three year period. Premium tax offset assets for guaranty fund payments, as shown in the table below, are realized within five years of the payment of the guaranty fund assessment in most states.

Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	\$935
Decreases current year:	—
Increases current year:	—
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	\$935

3. Reconciliation to Revised 2016 Audited Financial Statement

The Company revised the Statement of Cash Flows for the year ended December 31, 2016 to correct for non-cash items previously included in the financial statement and not separately disclosed as a supplemental disclosure. The following is a reconciliation of amounts previously reported within the Statement of Cash Flows of the 2016 audited financial statement to the revised values included in this financial statement. The Company has concluded that the impact on the previously issued financial statements was not material.

For the Year Ended December 31, 2016	As Originally Reported	Adjustment	As Revised
Premiums collected net of reinsurance	\$ 245,955	\$(12,194)	\$ 233,761
Net investment income	101,802	(6,215)	95,587
Benefits and loss related items	(124,491)	33,522	(90,969)
Dividends paid to policyholders	(18,662)	16,995	(1,667)
Net cash from operations	148,442	32,108	180,550
Increase (decrease) in contract loans and premium notes	818	(6,215)	(5,397)
Net cash from investments	(134,471)	6,215	(128,256)
Net deposits on deposit-type contracts and other insurance liabilities	13,115	(38,323)	(25,208)
Net cash from financing and miscellaneous sources	12,926	(38,323)	(25,397)

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

4. Investments

A. Bonds and Other Debt Securities

The statement value and estimated fair value of investments in debt securities, including short-term investments, were as follows:

	December 31, 2018			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	\$ 151,039	\$ 2,094	\$ (1,383)	\$ 151,750
All other governments	6,251	21	(93)	6,179
States, territories and possessions (direct and guaranteed)	29,387	1,449	(20)	30,816
Political subdivisions of states, territories and possessions (direct and guaranteed)	175,483	6,819	(48)	182,254
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	667,621	8,512	(8,662)	667,471
Industrial and miscellaneous (unaffiliated)	1,695,672	8,176	(45,958)	1,657,890
Totals	<u>\$2,725,453</u>	<u>\$27,071</u>	<u>\$(56,164)</u>	<u>\$2,696,360</u>

	December 31, 2017			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	\$ 158,862	\$ 3,247	\$ (711)	\$ 161,398
All other governments	6,523	106	(46)	6,583
States, territories and possessions (direct and guaranteed)	30,896	2,224	(11)	33,109
Political subdivisions of states, territories and possessions (direct and guaranteed)	176,709	10,971	(10)	187,670
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	620,802	15,816	(3,216)	633,402
Industrial and miscellaneous (unaffiliated)	1,610,596	34,160	(11,095)	1,633,661
Totals	<u>\$2,604,388</u>	<u>\$66,524</u>	<u>\$(15,089)</u>	<u>\$2,655,823</u>

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

The statement value and estimated fair value of debt securities by expected maturity are shown below. The expected maturity may differ from the contractual maturity for certain securities and, where applicable, is based on assumed prepayment rates, payment schedules, and known calls.

	December 31, 2018	
	Statement Value	Fair Value
Due in one year or less	\$ 118,808	\$ 119,804
Due after one year through five years	1,029,102	1,028,085
Due after five years through ten years	1,397,653	1,373,263
Due after ten years	179,890	175,208
Totals	<u>\$2,725,453</u>	<u>\$2,696,360</u>

Gross proceeds and realized gains and losses, including other-than-temporary impairments, on bonds sold for the years ended December 31 consisted of:

	2018	2017	2016
Proceeds	\$15,462	\$6,686	\$10,066
Gross gains	546	621	611
Gross losses	(89)	—	(37)

B. Restricted Assets

Certain assets owned by the Company and reported as admitted assets in the financial statements are not under the exclusive control of the Company. These investments are held at depository institutions for the benefit of policyholders and other beneficiaries.

	2018	2017
Bonds on deposit with regulatory authorities	<u>\$1,832</u>	<u>\$1,852</u>
Total	<u>\$1,832</u>	<u>\$1,852</u>

C. Equity Investments

The cost and fair value of investments in stocks, and gross unrealized gains and losses from these investments were as follows:

	December 31, 2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common	\$663	—	\$(156)	\$507
	December 31, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common	\$637	—	\$ (15)	\$622

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

Proceeds gains and losses—stocks

	<u>2018</u>	<u>2017</u>
Proceeds	\$—	\$—
Gross gains	—	—
Gross losses	—	—

D. Financial Instrument Impairments

On a quarterly basis, the Company evaluates its investment portfolio for other-than-temporary impairments. In evaluating whether a decline in value is other- than- temporary, management considers several factors including, but not limited to, the following:

- The Company’s ability and intent to retain the security for a sufficient period of time for it to recover.
- The extent and duration of the decline in value.
- The probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring.
- Relevant industry conditions and trends.
- The financial condition and current and future business prospects of the issuer.

During 2018, 2017, and 2016, the Company had realized capital losses due to other-than-temporary declines in the fair value on bonds of \$15, \$401, and \$870, respectively.

The unrealized losses due to temporary declines in the fair value of investments were as follows:

	December 31, 2018					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. governments	\$ 30,418	\$ (311)	\$ 43,794	\$ (1,072)	\$ 74,212	\$ (1,383)
All other governments	838	(6)	2,736	(87)	3,574	(93)
States, territories and possessions (direct and guaranteed)	1,530	(5)	985	(15)	2,515	(20)
Political subdivisions of states, territories and possessions (direct and guaranteed)	4,622	(32)	983	(16)	5,605	(48)
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	176,112	(2,382)	173,721	(6,280)	349,833	(8,662)
Industrial and miscellaneous (unaffiliated) ..	784,255	(19,422)	411,597	(26,536)	1,195,852	(45,958)
Subtotal, debt securities	997,775	(22,158)	633,816	(34,006)	1,631,591	(56,164)
Unaffiliated stock	507	(156)	—	—	507	(156)
Total temporarily impaired securities ...	<u>\$998,282</u>	<u>\$(22,314)</u>	<u>\$633,816</u>	<u>\$(34,006)</u>	<u>\$1,632,098</u>	<u>\$(56,320)</u>

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. governments	\$ 20,294	\$ (112)	\$ 30,655	\$ (599)	\$ 50,949	\$ (711)
All other governments	—	—	2,836	(46)	2,836	(46)
States, territories and possessions (direct and guaranteed)	—	—	989	(11)	989	(11)
Political subdivisions of states, territories and possessions (direct and guaranteed)	1,941	(1)	991	(9)	2,932	(10)
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	73,697	(443)	114,822	(2,773)	188,519	(3,216)
Industrial and miscellaneous (unaffiliated)	247,956	(2,959)	234,166	(8,136)	482,122	(11,095)
Subtotal, debt securities	343,888	(3,515)	384,459	(11,574)	728,347	(15,089)
Unaffiliated stock	622	(15)	—	—	622	(15)
Total temporarily impaired securities	<u>\$344,510</u>	<u>\$(3,530)</u>	<u>\$384,459</u>	<u>\$(11,574)</u>	<u>\$728,969</u>	<u>\$(15,104)</u>

The unrealized losses on the Company's bond investments were primarily interest related with market declines driven by changes in interest rates and credit spreads, not on fundamental credit problems of the issuers. The contractual terms of the Company's bond investments, excluding loan-backed, do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company did not have the intent to sell these investments at the reporting date and does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

E. Realized Capital Gains (Losses)

The reconciliation of realized capital gains (losses) is as follows:

	December 31, 2018		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$434	\$347	\$ 87
Less: IMR capital gains (losses)	365	77	288
Capital gains (losses) net of IMR	\$ 69	\$270	\$(201)

	December 31, 2017		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$255	\$778	\$(523)
Less: IMR capital gains (losses)	337	118	219
Capital gains (losses) net of IMR	\$(82)	\$660	\$(742)

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	December 31, 2016		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$2,578	\$1,433	\$ 1,145
Less: IMR capital gains (losses)	3,442	1,239	2,203
Capital gains (losses) net of IMR	\$ (864)	\$ 194	\$(1,058)

F. Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31 were as follows:

	2018	2017	2016
Bonds	\$ 95,383	\$ 93,544	\$ 91,784
Cash, cash equivalents and short-term investments	576	379	131
Contract loans and liens	10,700	10,528	10,451
Gross investment income	106,659	104,451	102,366
Investment expenses	(792)	(793)	(589)
Net investment income	<u>\$105,867</u>	<u>\$103,658</u>	<u>\$101,777</u>

G. Fair Value Measurements

Fair value is defined as the price that the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy is used to classify fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in three broad levels as follows:

- Level 1 – Unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, quoted prices for similar instruments in active markets, interest rates, yield curves and credit spreads. For assets or liabilities with a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available. These inputs, based on the best information available in the circumstances, would include reasonably available information about the assumptions that a market participant would use in valuing the asset or liability and might include the Company's own data.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

The inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Financial Instruments measured at fair value at December 31 were as follows:

<u>Description</u>	Fair Value Measurements at December 31, 2018				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value (NAV)</u>	
Cash equivalents	\$ 5,128	\$—	\$—	\$—	\$ 5,128
Stocks:					
Domestic common	507	—	—	—	507
Bonds:					
Industrial and miscellaneous	—	—	—	—	—
Separate Accounts	50,023	—	—	—	50,023
Total	<u>\$55,658</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$55,658</u>

<u>Description</u>	Fair Value Measurements at December 31, 2017				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value (NAV)</u>	
Cash equivalents	\$4,707	\$ —		\$—	\$ 4,707
Stocks:					
Domestic common	622	—		—	622
Bonds:					
Industrial and miscellaneous	—	—	44	—	44
Separate Accounts	—	57,277	—	—	57,277
Total	<u>\$5,329</u>	<u>\$57,277</u>	<u>\$ 44</u>	<u>\$—</u>	<u>\$62,650</u>

The Company recognizes transfers between levels at the end of the reporting period. In association with the merger of the private, affiliated State Farm Variable Products Trust with BlackRock Variable Series Funds, Inc. and BlackRock Variable Series Funds II, Inc., \$50,023 for the Separate Accounts was transferred from Level 2 to Level 1 in 2018. At June 30, 2017 and September 30, 2017, the Company recognized transfers of corporate bonds from Level 2 to Level 3 due to the unavailability of external prices.

Level 1 Measurements

Cash Equivalents—These assets include registered money market mutual funds. The fair value is based on the NAV.

Unaffiliated Stocks—Valuation is based on unadjusted quoted market price in an active market.

Separate Accounts—These assets include mutual funds. The fair value is based upon closing NAV per share. The NAVs are published daily by the funds' managers.

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

Level 2 Measurements

Separate Accounts—At December 31, 2017, these assets included private, affiliated mutual funds valued at NAV daily using observable inputs. Valuation inputs of underlying assets include, but are not limited to, quoted exchange prices, quotations by independent pricing services, bid price quotations from brokers, multiple of earnings, multiple of book values, similar freely traded securities, and yield to maturity.

Level 3 Measurements

Bonds—At December 31, 2017, these assets included below investment grade bonds that were reported in the financial statements at fair value at the reporting date. The fair value for these bonds was determined based on best information available.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

a. Assets:										
Bonds:										
Industrial and miscellaneous	\$44	\$—	\$—	\$24	\$(18)	\$—	\$—	\$50	\$—	\$—

5. Separate Accounts

As of December 31, 2018 and 2017, the Company’s separate accounts statement included legally insulated assets of \$50,023 and \$57,277, respectively. The assets legally insulated from the general account as of December 31, 2018 and 2017 are attributed to the following products:

December 31, 2018

<u>Product/Transaction</u>	<u>Legally Insulated Assets</u>	<u>Separate Accounts Assets (Not Legally Insulated)</u>
Variable Universal Life	\$17,326	\$—
Variable Annuities	32,697	—
Total	<u>\$50,023</u>	<u>\$—</u>

December 31, 2017

<u>Product/Transaction</u>	<u>Legally Insulated Assets</u>	<u>Separate Accounts Assets (Not Legally Insulated)</u>
Variable Universal Life	\$19,023	\$—
Variable Annuities	38,254	—
Total	<u>\$57,277</u>	<u>\$—</u>

Certain guarantees are provided by the general account. For the year ended December 31, 2018, the general account had paid \$5 and for the years 2017, 2016, 2015, and 2014, the general account had paid \$0 towards separate accounts guarantees. The Company’s variable universal life and variable annuity contracts do not designate explicit risk charges to compensate the general account for the guarantees provided.

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

Information regarding the Separate Accounts of the Company as of December 31, 2018, 2017, and 2016 is as follows:

	2018				
	(1) Indexed	(2) Nonindexed Guarantee Less Than Equal to 4%	(3) Nonindexed Guarantee More than 4%	(4) Nonguaranteed Separate Accounts	(5) Total
Premiums, considerations or deposits for year ended December 31	\$—	\$—	\$—	\$ 1,786	\$ 1,786
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	49,969	49,969
Amortized cost	—	—	—	—	—
Total reserves	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$49,969</u>	<u>\$49,969</u>
Withdrawal characteristics:					
Subject to discretionary withdrawal:					
With market value adjustment	\$—	\$—	\$—	\$ —	\$ —
At book value without market value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	49,969	49,969
At book value without market value adjustment and with current surrender charge of less than 5%	—	—	—	—	—
Subtotal	—	—	—	49,969	49,969
Not subject to discretionary withdrawal	—	—	—	—	—
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$49,969</u>	<u>\$49,969</u>

Reconciliation of Net Transfers to or (from) separate accounts:

	2018
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 1,895
Transfers from separate accounts	(5,279)
Net transfers to (from) separate accounts	<u>\$(3,384)</u>
Transfers as reported in the Statements of Operations	<u>\$(3,384)</u>

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	2017				
	(1) Indexed	(2) Nonindexed Guarantee Less Than Equal to 4%	(3) Nonindexed Guarantee More than 4%	(4) Nonguaranteed Separate Accounts	(5) Total
Premiums, considerations or deposits for year ended December 31	\$—	\$—	\$—	\$ 1,868	\$ 1,868
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	57,253	57,253
Amortized cost	—	—	—	—	—
Total reserves	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$57,253</u>	<u>\$57,253</u>
Withdrawal characteristics:					
Subject to discretionary withdrawal:					
With market value adjustment	\$—	\$—	\$—	\$ —	\$ —
At book value without market value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	57,205	57,205
At book value without market value adjustment and with current surrender charge of less than 5%	—	—	—	—	—
Subtotal	—	—	—	57,205	57,205
Not subject to discretionary withdrawal	—	—	—	48	48
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$57,253</u>	<u>\$57,253</u>

Reconciliation of Net Transfers to or (from) separate accounts:

	<u>2017</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 1,974
Transfers from separate accounts	(4,205)
Net transfers to (from) separate accounts	<u>\$(2,231)</u>
Transfers as reported in the Statements of Operations	<u>\$(2,231)</u>

Reconciliation of Net Transfers to or (from) separate accounts:

	<u>2016</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 2,124
Transfers from separate accounts	(4,954)
Net transfers to (from) separate accounts	<u>\$(2,830)</u>
Transfers as reported in the Statements of Operations	<u>\$(2,830)</u>

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

6. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate that value:

Bonds (including short-term)

Prices published by the SVO or prices from pricing vendors are used to calculate fair value. SVO valuations are based upon publicly available prices for identical or similar assets or on valuation models or matrices using observable inputs. Typical inputs to models used by pricing vendors include but are not limited to contractual cash flows, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. On newly acquired bonds not yet priced by pricing vendors, the purchase price is used as fair value. For other bonds where a price is not available from the SVO or pricing vendors, an internal pricing matrix is used to estimate fair value. Inputs to the internal pricing matrix include benchmark yields, credit spreads, industry sector of the issuer, and illiquidity spreads for private placement securities.

Unaffiliated Stocks:

Prices from pricing vendors or prices prescribed by the SVO are used to calculate fair value. Valuation is based on unadjusted quoted market prices for identical assets in an active market, NAV, or shareholder's equity derived from the issuer's audited financial statements

Cash

The carrying amount is a reasonable estimate of fair value.

Cash Equivalents

Cash equivalents consist of shares in money market mutual funds and the Pool. The fair value of money market mutual funds is based on the NAV calculated by the funds. The fair value of the Pool is determined by audited GAAP equity method.

Contract Loans

Contract loans have no stated maturity dates and are an integral part of the insurance contract. Accordingly, it is not practicable to estimate a fair value for contract loans.

Separate Accounts

The fair value of the assets held in separate accounts and corresponding liabilities are based on the NAV of the underlying assets.

Deferred Annuities

Fair values were approximated by the amount due to the annuity holder as if the annuity contract was surrendered at year end, ignoring the effects of any market value adjustments.

Settlement Options Without Life Contingencies

Settlement options without life contingencies are similar to demand deposits. The fair value is the amount payable on demand at year end.

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

The statement value and estimated fair value of the Company's financial instruments at December 31 were as follows:

	2018						Net Asset Value (NAV)	Not Practicable (carrying value)
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)			
Financial assets:								
Bonds:								
Loan-backed	\$ 688,235	\$ 692,365		688,235				
Other bonds	2,008,125	2,033,088		2,008,125	0			
Unaffiliated stocks	507	507	507					
Cash	(1,000)	(1,000)	(1,000)					
Cash equivalents	45,936	45,936	5,128	40,808				
Short-term investments	—	—						
Contract loans	—	171,302						171,302
Separate accounts	50,023	50,023	50,023					
Financial liabilities:								
Deferred annuity reserves								
reserves	\$ 281,478	\$ 283,137		281,478				
Settlement options without life contingencies								
contingencies	137,083	137,083		137,083				
Separate accounts	50,023	50,023	50,023					
	2017						Net Asset Value (NAV)	Not Practicable (carrying value)
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)			
Financial assets:								
Bonds:								
Loan-backed	\$ 657,299	\$ 649,371		\$ 657,299				
Other bonds	1,998,525	1,955,017		1,998,481	44			
Unaffiliated stocks	622	622	622					
Cash	316	316	316					
Cash equivalents	46,048	46,048	4,707	41,341				
Short-term investments								
investments	—	—						
Contract loans	—	167,279						167,279
Separate accounts	57,277	57,277		57,277				
Financial liabilities:								
Deferred annuity reserves								
reserves	\$ 282,431	\$ 283,514		\$ 282,431				
Settlement options without life contingencies								
contingencies	132,278	132,278		132,278				
Separate accounts	57,277	57,277		57,277				

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

Not practicable to estimate fair value:

<u>Type or Class of Financial Instrument</u>	<u>Carrying Value</u>	<u>Effective Interest Rate</u>	<u>Maturity Date</u>	<u>Explanation</u>
Contract loans	\$171,302	Various	Not applicable	See above

7. Life Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-paying Policies

If the nonforfeiture values provided by such policy are computed on the same basis as for standard risks, or if no nonforfeiture values are provided, reserves are based on a substandard mortality table or are equal to the sum of the reserve for a similar standard policy and the unearned extra premium. If the nonforfeiture values provided by such policy are based on a substandard mortality table, reserves are maintained according to the same table.

Paid-up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are those based on the same substandard table. As of December 31, 2018 and 2017, the Company had \$4,115,971 and \$3,825,472, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the state of Illinois. Deficiency reserves to cover the above insurance totaled the gross amount of \$20,050 and \$17,056 at December 31, 2018 and 2017, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the NAIC Annual Statement Instructions. Tabular interest on deposit funds not involving life contingencies is determined as a balance item where interest is included in other items at appropriate rates and adjustments due to changes in valuation basis or other increases have been reflected.

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

B. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity Actuarial Reserves and Deposit Type Contract Funds and Other Liabilities Without Life or Disability Contingencies by Withdrawal Characteristics as of December 31, 2018 and 2017 were as follows:

	2018				
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	Percentage of Total
Subject to discretionary withdrawal:					
With market value adjustment	\$186,879	\$ —	\$ —	\$186,879	28.2%
At book value less current surrender charge of 5% or more	10	—	—	10	0.0%
At fair value	—	—	32,644	32,644	4.9%
Subtotal	<u>\$186,889</u>	<u>\$ —</u>	<u>\$32,644</u>	<u>\$219,533</u>	<u>33.1%</u>
At book value without adjustment (minimal or no charge or adjustment)	409,554	—	—	409,554	61.7%
Not subject to discretionary withdrawal	34,296	—	—	34,296	5.2%
Total (gross)	<u>\$630,739</u>	<u>\$ —</u>	<u>\$32,644</u>	<u>\$663,383</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$630,739</u>	<u>\$ —</u>	<u>\$32,644</u>	<u>\$663,383</u>	
As reported in the Life, and Accident and Health Annual Statement:					
Annuities total (net)		\$365,133			
Supplementary contracts with life contingencies total (net)		2,441			
Deposit-type contracts		263,165			
Subtotal		<u>\$630,739</u>			
As reported in the Separate Accounts Annual Statement:					
Annuities total (net)		32,644			
Supplementary contracts, total		—			
Policyholder dividend and coupon accumulations		—			
Policyholder premiums		—			
Guaranteed interest contracts		—			
Other contract deposit funds		—			
Subtotal		<u>\$ 32,644</u>			
Total annuity actuarial reserves and deposit-type contract liabilities		<u>\$663,383</u>			

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes Annuity Disability Reserves of \$19

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	2017				Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	
Subject to discretionary withdrawal:					
With market value adjustment	\$185,755	\$ —	\$ —	\$185,755	28.0%
At book value less current surrender charge of 5% or more	19	—	—	19	0.0%
At fair value	—	—	38,235	38,235	5.8%
Subtotal	<u>\$185,774</u>	<u>\$ —</u>	<u>\$38,235</u>	<u>\$224,009</u>	<u>33.8%</u>
At book value without adjustment (minimal or no charge or adjustment)	405,704	—	—	405,704	61.2%
Not subject to discretionary withdrawal	33,302	—	—	33,302	5.0%
Total (gross)	<u>\$624,780</u>	<u>\$ —</u>	<u>\$38,235</u>	<u>\$663,015</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$624,780</u>	<u>\$ —</u>	<u>\$38,235</u>	<u>\$663,015</u>	
As reported in the Life, and Accident and Health Annual Statement:					
Annuities total (net)		\$365,050			
Supplementary contracts with life contingencies total (net)		2,476			
Deposit-type contracts		<u>257,254</u>			
Subtotal		<u>\$624,780</u>			
As reported in the Separate Accounts Annual Statement:					
Annuities total (net)		\$ 38,235			
Supplementary contracts, total		—			
Policyholder dividend and coupon accumulations		—			
Policyholder premiums		—			
Guaranteed interest contracts		—			
Other contract deposit funds		—			
Subtotal		<u>\$ 38,235</u>			
Total annuity actuarial reserves and deposit-type contract liabilities		<u>\$663,015</u>			

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes Annuity Disability Reserves of \$31

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

C. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations were as follows:

<u>Type</u>	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Industrial	\$ —	\$ —	\$ —	\$ —
Ordinary new business	83	27	82	27
Ordinary renewal	1,447	1,216	1,328	1,100
Credit life	—	—	—	—
Group life	—	—	2	2
Group annuity	—	—	—	—
Total	<u>\$1,530</u>	<u>\$1,243</u>	<u>\$1,412</u>	<u>\$1,129</u>

8. Federal Income Taxes

The components of DTAs and DTLs at December 31 were as follows:

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross DTAs	\$47,984	\$ 38	\$48,022	\$47,105	\$ 3	\$47,108
Statutory valuation allowance adjustment	—	—	—	—	—	—
Adjusted gross DTAs	47,984	38	48,022	47,105	3	47,108
Nonadmitted DTAs	26,933	—	26,933	27,008	—	27,008
Net admitted DTAs	21,051	38	21,089	20,097	3	20,100
DTLs	6,731	—	6,731	8,849	—	8,849
Net admitted adjusted DTAs (DTLs)	<u>\$14,320</u>	<u>\$ 38</u>	<u>\$14,358</u>	<u>\$11,248</u>	<u>\$ 3</u>	<u>\$11,251</u>

The admission calculation for adjusted DTAs at December 31 were as follows:

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ —	\$—	\$ —	\$ —	\$—	\$ —
Adjusted gross DTAs expected to be realized after application of the threshold limitation	14,358	—	14,358	14,119	—	14,119
Lesser of:						
Adjusted gross DTAs expected to be realized following the balance sheet date; or	14,358	—	14,358	14,119	—	14,119
Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	78,738	N/A	N/A	75,596
Adjusted gross DTAs offset by gross DTLs	6,693	38	6,731	5,978	3	5,981
Total admitted adjusted gross DTAs	<u>\$21,051</u>	<u>\$ 38</u>	<u>\$21,089</u>	<u>\$20,097</u>	<u>\$ 3</u>	<u>\$20,100</u>

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

Amounts used in recovery period and threshold limitation calculation:

	<u>2018</u>	<u>2017</u>
Ratio percentage used to determine recovery period and threshold limitation amount	1,611.82%	1,531.81%
Total adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 546,794	\$ 511,952

The Company did not utilize any tax planning strategies which would have resulted in an increase of the Company's adjusted gross DTA or net admitted DTAs.

There were no unrecognized DTLs.

Current income taxes incurred consist of the following major components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current income tax expense (benefit)	\$12,440	\$17,270	\$14,222
Adjustment to prior year taxes	(185)	(24)	(26)
Combined income taxes incurred	\$12,255	\$17,246	\$14,196
Tax (benefit) on capital gains (losses)	347	778	1,433
Current income taxes incurred	<u>\$12,602</u>	<u>\$18,024</u>	<u>\$15,629</u>

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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

The main components of the deferred tax amounts were as follows:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
DTAs:			
Ordinary:			
Policyholder reserves	\$20,812	\$12,376	\$ 8,436
Reserves transition rule	—	\$ 7,646	\$(7,646)
Deferred acquisition costs	15,641	14,353	1,288
Policyholder dividends accrual	2,276	2,234	42
Compensation and benefits accrual	7,970	7,516	454
Liability for termination benefits	1,151	2,173	(1,022)
Other	134	807	(673)
Total ordinary DTAs	<u>47,984</u>	<u>47,105</u>	<u>879</u>
Statutory valuation allowance adjustment	—	—	—
Nonadmitted DTAs	26,933	27,008	(75)
Admitted ordinary DTAs	<u>\$21,051</u>	<u>\$20,097</u>	<u>\$ 954</u>
Capital:			
Investments	\$ 38	\$ 3	\$ 35
Total capital DTAs	<u>38</u>	<u>3</u>	<u>35</u>
Statutory valuation allowance adjustment	—	—	—
Admitted capital DTAs	<u>\$ 38</u>	<u>\$ 3</u>	<u>\$ 35</u>
Admitted DTAs	<u>\$21,089</u>	<u>\$20,100</u>	<u>\$ 989</u>
DTLs:			
Ordinary:			
Deferred and uncollected premium	\$ —	\$ 202	\$ (202)
Surplus adjustment for lapsed policies	63	57	6
Interest receivable on federal income tax	685	616	69
Guaranty funds receivable	197	302	590
Reserves Transition Rule	5,762	7,646	—
Other	24	26	(2)
Total ordinary DTLs	<u>\$ 6,731</u>	<u>\$ 8,849</u>	<u>\$(2,118)</u>

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of non-admitted assets as the change in non-admitted assets is reported separately from the change in net deferred income taxes in the financial statements):

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Total DTAs	\$48,022	\$47,108	\$ 914
Total DTLs	6,731	8,849	(2,118)
Net DTAs	\$41,291	\$38,259	\$ 3,032
Tax effect of net unrealized (gains) losses			(35)
Change in net deferred income tax			<u>\$ 2,997</u>

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	2016		
	Amount	Tax Effect at 35%	Effective Tax Rate
Income after capital gains tax	\$45,115		
Capital gain (loss) tax	1,433		
Income before taxes	\$46,548	\$16,292	35.00%
Change in nonadmitted assets	1	—	0.00%
Foreign taxes	(53)	(18)	-0.04%
Change in liability for termination benefits	(227)	(79)	-0.17%
Prior year adjustment—other	(213)	(75)	-0.16%
Dividends received deduction—Separate Accounts, net of proration	(193)	(68)	-0.15%
Current year permanent differences	(1,480)	(518)	-1.11%
Total	<u>\$44,383</u>	<u>\$15,534</u>	<u>33.37%</u>
Federal income tax incurred		\$14,196	30.50%
Capital gain (loss) taxes incurred		1,433	3.07%
Change in net deferred income tax		(95)	-0.20%
Total statutory income taxes		<u>\$15,534</u>	<u>33.37%</u>

At December 31, 2018, the Company did not have any net operating loss carryforwards or AMT credits.

Under Federal Internal Revenue Code, revised with the Tax Cuts and Jobs Act, net capital losses for life companies can be carried back three years. Life entities are not permitted to carryback ordinary losses. As such, admittance of operating deferred tax assets for life entities will be limited to SSAP No. 101, paragraph 11b and paragraph 11c. The following are income taxes incurred in the current and prior years which will be available for recoupment in the event of future capital losses. Prior year amounts have been updated to reflect information filed with the IRS:

2018	\$ 347
2017	\$ 778
2016	\$1,433

The Company has not recognized any uncertain tax position in the financial statements.

The Company files a federal consolidated income tax return with SFMAIC and its affiliates. An administrative appeal for tax years 2000 through 2012 is currently pending. The anticipated resolution of the issues is not expected to have a material adverse effect on the equity of the Company.

The Company and its affiliates file various state income tax returns and those state returns remain subject to examination from 2000 to present in conjunction with the results of federal examinations, unforeseen litigation, and appeals for those years.

The 2017 estimate of the “Reserves transition rule” impact was presented as both a DTA and DTL. In 2018, the DTA impact, as finalized, is embedded in the “Policyholders reserves” DTA amount.

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

During 2018, all information necessary to calculate modifications enacted with the 2017 Tax Cuts and Jobs Act became available, therefore, at December 31, 2018, the Company is in compliance with the new tax law. The net impact of the modifications was not material to surplus.

9. Benefit Plans

A. Pension Plans

The Company participates in a qualified defined benefit pension plan sponsored by SFMAIC covering substantially all employees. The Company has no direct legal obligation for benefits under this plan. SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of net expense for this qualified defined benefit pension plan for the years ended December 31, 2018, 2017, and 2016 was \$887, \$1,065, and \$1,581, respectively.

The Company also participates in a non-qualified defined benefit plan sponsored by SFMAIC covering select eligible highly compensated employees. Any benefits arising from this plan are paid from SFMAIC's general assets. The Company has no direct legal obligation for benefits under this plan. SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of net expense for this non-qualified plan for the years ended December 31, 2018, 2017, and 2016 was \$261, \$261, and \$272, respectively.

B. Postretirement Benefits

The Company and its affiliates currently provide certain health care and life insurance benefits pursuant to plans sponsored by SFMAIC for eligible employees and agents hired or appointed prior to January 1, 2012 and their eligible dependents. The Company has no direct legal obligation for the benefits under the plans. Benefits provided by the Company and its affiliates are subject to a cap.

SFMAIC allocates amounts to the Company based on intercompany cost sharing arrangements. The Company's share of the post-career net periodic benefit cost for the years ended December 31, 2018, 2017, and 2016 was \$611, \$510, and \$513, respectively. At December 31, 2018 and December 31, 2017, the Company's share of the accrued post-career benefit liability was \$15,066 and \$14,879, respectively.

C. Agent Termination Benefits

The Company provides termination benefits for certain independent contractor agents subject to service and age eligibility requirements as defined in agent contracts. These benefits are valued using the Projected Unit Credit actuarial cost method. The actuarial valuations include a service-based premium growth assumption based on historical data. Benefits are paid from the Company's general assets.

In June 2016, the NAIC approved the use of the yield curve approach (also referred to as the spot rate approach) for calculating the service cost and interest cost components of the annual net periodic benefit cost for agents' termination benefits reporting under SSAP No. 102. Effective January 1, 2017, the Company elected to adopt the spot rate approach. This change does not impact the measurement of the Company's agents' termination benefit obligations. In accordance with NAIC SAP, this change was applied prospectively and accounted for as a change in accounting estimate during 2017. The Company estimated the impact on net periodic benefit cost to be a reduction of \$162 through December 31, 2017.

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

A summary of obligations and assumptions related to agent termination benefits were as follows at December 31, 2018, 2017, and 2016.

	Underfunded		
	Agent Termination Benefits		
	2018	2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	\$26,981	\$22,741	\$20,717
Service cost	934	696	673
Interest cost	969	930	974
Actuarial (gain) loss	(4,176)	3,006	745
Benefits paid	(408)	(392)	(368)
Benefit obligation at end of year	<u>\$24,300</u>	<u>\$26,981</u>	<u>\$22,741</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —
Reporting entity contribution	408	392	368
Benefits paid	(408)	(392)	(368)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:			
Liabilities recognized Accrued benefit costs	\$18,818	\$16,634	\$14,851
Liability for termination benefits	5,482	10,347	7,890
Total liabilities recognized	<u>\$24,300</u>	<u>\$26,981</u>	<u>\$22,741</u>
Components of net periodic benefit cost:			
Service cost	\$ 934	\$ 696	\$ 673
Interest cost	969	930	974
Gains and losses	196	56	25
Prior service cost or credit	493	493	493
Total net periodic benefit cost	<u>\$ 2,592</u>	<u>\$ 2,175</u>	<u>\$ 2,165</u>

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Notes to Financial Statements—Statutory Basis, Continued (in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:			
Items not yet recognized as a component of net periodic cost—			
prior year	\$10,347	\$ 7,890	\$ 7,663
Net prior service cost or credit recognized	(493)	(493)	(493)
Net gain and loss arising during the period	(4,176)	3,006	745
Net gain and loss recognized	<u>(196)</u>	<u>(56)</u>	<u>(25)</u>
Items not yet recognized as a component of net periodic cost—			
current year	<u>\$ 5,482</u>	<u>\$10,347</u>	<u>\$ 7,890</u>
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:			
Net prior service cost or credit	493	493	493
Net recognized gains and losses	—	199	60
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:			
Net prior service cost or credit	3,553	4,046	4,540
Net recognized gains and losses	1,929	6,301	3,350
Accumulated benefit obligation	\$15,133	\$15,869	\$14,033
Weighted-average assumptions used to determine net periodic cost as of December 31:			
Discount rate	3.87%	4.61%	4.78%
Rate of compensation increase	4.00%*	4.00%*	4.00%*
Weighted-average assumptions used to determine projected benefit obligation as of December 31:			
Discount rate	4.49%	3.87%	4.60%
Rate of compensation increase	3.00%*	4.00%*	4.00%*

* Compensation is based on a service-based scale using five years of historical renewal commissions data.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Years</u>	<u>Amount</u>
2019	\$ 478
2020	\$ 516
2021	\$ 544
2022	\$ 581
2023	\$ 623
2024-2028	\$3,843

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

D. Defined Contribution Plan

The Company participates with its affiliates in a qualified defined contribution plan for which substantially all employees are eligible. Benefits provided by the plan are paid from net assets available for plan benefits. The Company's contribution for the plan was \$181, \$175, and \$146 for 2018, 2017, and 2016, respectively. At December 31, 2018 and December 31, 2017, the fair value of plan assets held in trust was \$11,516,394 and \$12,415,394, respectively.

10. Other Related Party Transactions

The Company reported no receivable due from affiliates and \$4,066 and \$3,309 as a payable due to affiliates at December 31, 2018 and December 31, 2017, respectively. These balances primarily represent the sharing of certain personnel, administrative, occupancy and marketing expenses generated under servicing agreements with State Farm affiliates. The Company has no direct employees. Expenses are allocated among affiliates based on statistical ratios, surveys and usage studies. The terms of settlement require that these amounts are settled within 60 days. Such expenses allocated to the Company from the affiliates totaled \$39,431, \$37,041, and \$34,183 during 2018, 2017, and 2016, respectively.

The Company reported no dividends to SFMAIC in 2018, 2017, and 2016.

At December 31, 2018 and December 31, 2017, the Company's federal income tax payable to affiliates was \$7,993 and \$11,819, respectively.

The Company is a party to a common clearing account agreement with its affiliates whereby any party may deposit premium payments and other cash receipts, disburse funds and accept electronic payments through a comprehensive cash balance system.

The Company incurs lease costs for real estate and equipment primarily through the allocation of expenses from SFMAIC, in accordance with company cost sharing agreements. SFMAIC is the lessee on almost all lease agreements.

Rental expense for real estate for 2018, 2017, and 2016 was \$1,034, \$821, and \$727, respectively. Rental expense for leased equipment for 2018, 2017, and 2016 was \$11, \$27, and \$15, respectively.

11. Contingencies

The Company is subject to liabilities of a contingent nature which may from time to time arise. Such liabilities could result from sales practices, income tax matters, guaranty fund assessments or other occurrences that take place in the normal course of doing business. In addition, the life insurance industry has not been exempt from the impact of an increasingly litigious environment which is being experienced in the United States. Liabilities arising as a result of these factors, or other such contingencies, that are not provided for elsewhere in these financial statements are not reasonably estimable and are not considered by management to be material in relation to the financial position of the Company.

State Farm Life and Accident Assurance Company
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Notes to Financial Statements—Statutory Basis, Continued (in thousands)

12. Other

The Company committed to purchase \$19,500 of private placement securities in the latter part of 2018, which is expected to be funded in the first half of 2019. These securities were not reported as bond investments at December 31, 2018.

SUPPLEMENTAL FINANCIAL INFORMATION



Report of Independent Auditors

To the Board of Directors of
State Farm Life and Accident Assurance Company

We have audited the statutory-basis financial statements of State Farm Life and Accident Assurance Company as of December 31, 2018 and for the year then ended and our report thereon appears on pages one and two of this document. That audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risk Interrogatories (collectively the “supplemental schedules”) of the Company as of December 31, 2018 and for the year then ended are presented to comply with the National Association of Insurance Commissioners’ Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 22, 2019

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State Farm Life and Accident Assurance Company
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Supplemental Schedule of Assets and Liabilities (in thousands)
December 31, 2018

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

Investment income earned:	
U.S. government bonds	\$ 4,887
Other bonds (unaffiliated)	90,496
Contract loans and liens	10,700
Cash, cash equivalents, and short-term investments	576
Other	—
Gross investment income	<u>\$ 106,659</u>
Bonds and short-term investments by class and maturity:	
Bonds by maturity—statement value	
Due within one year or less	\$ 118,808
Over 1 year through 5 years	1,029,102
Over 5 years through 10 years	1,397,653
Over 10 years through 20 years	176,818
Over 20 years	<u>3,072</u>
Total by maturity	<u>\$2,725,453</u>
Bond by class—statement value	
Class 1	\$2,170,568
Class 2	542,052
Class 3	8,839
Class 4	<u>3,994</u>
Total by class	<u>\$2,725,453</u>
Total bonds and short-term investments publicly traded	<u>\$2,237,652</u>
Total bonds and short-term investments privately placed	<u>\$ 487,801</u>
Unaffiliated common stocks—market value	<u>\$ 507</u>
Cash on deposit	<u>\$ (1,000)</u>
Cash equivalents	<u>\$ 45,936</u>

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Schedule of Assets and Liabilities (in thousands)
December 31, 2018

Life insurance in force:	
Ordinary	\$43,716,139
Credit life	\$ —
Group life	\$ 52,431
Amount of accidental death insurance in force under ordinary policies	\$ 122,809
Amount of life insurance with disability provisions in force:	
Ordinary	\$19,028,968
Group life	\$ 52,431
Supplementary contracts in force:	
Ordinary—not involving life contingencies:	
Amount on deposit	\$ 118,877
Income payable	\$ 172
Ordinary—involving life contingencies:	
Income payable	\$ 281
Annuities:	
Ordinary:	
Immediate—amount of income payable	\$ 9,457
Deferred—fully paid account balance	\$ 317,140
Deferred—not fully paid—account balance	\$ 26
Deposit funds and dividend accumulations:	
Deposit funds—account balance	\$ 6,672
Dividend accumulations—account balance	\$ 119,410

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Summary Investment Schedule
December 31, 2018

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	\$ 7,068,311	0.240	\$ 7,068,311		\$ 7,068,311	0.240
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	142,846,222	4.855	142,846,222		142,846,222	4.855
1.22 Issued by U.S. government sponsored agencies	7,254,403	0.247	7,254,403		7,254,403	0.247
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	6,251,276	0.212	6,251,276		6,251,276	0.212
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories, and possessions and general obligations	29,387,165	0.999	29,387,165		29,387,165	0.999
1.42 Political subdivisions of states, territories and possessions and political subdivision general obligations	175,483,064	5.964	175,483,064		175,483,064	5.964
1.43 Revenue and assessment obligations	101,861,030	3.462	101,861,030		101,861,030	3.462
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA						
1.512 Issued or guaranteed by FNMA and FHLMC	7,531,430	0.256	7,531,430		7,531,430	0.256
1.513 All Other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	552,098,018	18.765	552,098,018		552,098,018	18.765
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All Other	400,308	0.014	400,308		400,308	0.014
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,422,084,264	48.335	1,422,084,264		1,422,084,264	48.335
2.2 Unaffiliated non-U.S. securities (including Canada)	273,187,815	9.285	273,187,815		273,187,815	9.285
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds						
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	506,888		506,888		506,888	
3.32 Unaffiliated						
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Mezzanine real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)						

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Summary Investment Schedule
December 31, 2018

	<u>Gross Investment Holdings</u>		<u>Admitted Assets as Reported in the Annual Statement</u>			
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Securities Lending Reinvested Collateral Amount</u>	<u>Total Amount</u>	<u>Percentage</u>
6. Contract loans	\$ 171,301,877	5.822	\$ 171,301,877		\$ 171,301,877	5.822
7. Derivatives						
8. Receivables for securities	1,643	—	1,643		1,643	—
9. Securities Lending (Line 10, Assets Page reinvested collateral)						
10. Cash, cash equivalents and short-term investments	44,936,442	1.527	44,936,442		44,936,442	1.527
11. Other invested assets						
12. Total invested assets	<u>\$2,942,200,156</u>	<u>100.000</u>	<u>\$2,942,200,156</u>	<u>\$—</u>	<u>\$2,942,200,156</u>	<u>100.000</u>

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
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Supplemental Investment Risk Interrogatories
December 31, 2018

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. Reporting entity's total admitted assets as reported on Page 3 of this annual statement. \$2,985,283,408
2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	FHLMC MULTIFAMILY STRUCT CMO	Bonds	\$277,286,795	9.3%
2.02	FNMA CMO ACES	Bonds	\$127,361,912	4.3%
2.03	FHLMC CMO	Bonds	\$ 66,052,187	2.2%
2.04	FNMA CMO	Bonds	\$ 53,855,278	1.8%
2.05	STATE FARM LIQUIDITY POOL LLC	Cash Equivalent	\$ 40,808,321	1.4%
2.06	MARS INC	Bonds	\$ 25,982,399	0.9%
2.07	FRESB MTG TR MULTIFAMILY CMB	Bonds	\$ 25,396,024	0.9%
2.08	JOHNSON & JOHNSON	Bonds	\$ 24,503,074	0.8%
2.09	PEPSICO INC	Bonds	\$ 23,000,263	0.8%
2.10	COCA-COLA CO	Bonds	\$ 21,988,194	0.7%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$2,170,568,291	72.7%	3.07	P/RP-1	\$— —%
3.02	NAIC-2	\$ 542,051,891	18.2%	3.08	P/RP-2	\$— —%
3.03	NAIC-3	\$ 8,839,527	0.3%	3.09	P/RP-3	\$— —%
3.04	NAIC-4	\$ 3,993,597	0.1%	3.10	P/RP-4	\$— —%
3.05	NAIC-5	\$ —	0.0%	3.11	P/RP-5	\$— —%
3.06	NAIC-6	\$ —	0.0%	3.12	P/RP-6	\$— —%

4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes No
- If response to 4.01 above is yes, responses are not required for interrogatories 5—10
- 4.02 Total admitted assets held in foreign investments \$234,917,594 7.9%
- 4.03 Foreign-currency-denominated investments \$ — —%
- 4.04 Insurance liabilities denominated in that same foreign currency \$ — —%

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC-1	\$234,917,594	7.9%
5.02 Countries designated NAIC-2	\$ —	—%
5.03 Countries designated NAIC-3 or below	\$ —	—%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Countries designated NAIC-1:		<u>1</u>	<u>2</u>
6.01 Country: Great Britain		\$58,011,950	1.9%
6.02 Country: Australia		\$41,309,768	1.4%
Countries designated NAIC-2:			
6.03 Country:		\$ —	—%
6.04 Country:		\$ —	—%
Countries designated NAIC-3 or below:			
6.05 Country:		\$ —	—%
6.06 Country:		\$ —	—%

7. Aggregate unhedged foreign currency exposure

<u>1</u>	<u>2</u>
\$—	—%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

	<u>1</u>	<u>2</u>
8.01 Countries designated NAIC-1	\$—	—%
8.02 Countries designated NAIC-2	\$—	—%
8.03 Countries designated NAIC-3 or below	\$—	—%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

Countries designated NAIC-1:		<u>1</u>	<u>2</u>
9.01 Country:		\$—	—%
9.02 Country:		\$—	—%
Countries designated NAIC-2:			
9.03 Country:		\$—	—%
9.04 Country:		\$—	—%
Countries designated NAIC-3 or below:			
9.05 Country:		\$—	—%
9.06 Country:		\$—	—%

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Designation		
10.01	SHELL INTL FIN BV	Bond 1	\$16,461,721	0.6%
10.02	AIR LIQUIDE FINANCE	Bond 1	\$ 8,419,979	0.3%
10.03	BASF SE	Bond 1	\$ 8,000,000	0.3%
10.04	BHP BILLITON FIN (USA) LTD	Bond 1	\$ 7,988,567	0.3%
10.05	COMPASS GROUP	Bond 1	\$ 7,000,000	0.2%
10.06	STATNETT SF	Bond 1	\$ 7,000,000	0.2%
10.07	DANONE SA	Bond 2	\$ 6,469,936	0.2%
10.08	VODAFONE GROUP PLC	Bond 2	\$ 6,445,368	0.2%
10.09	SCHLUMBERGER INVESTMENT	Bond 1	\$ 6,006,065	0.2%
10.10	GE CAPITAL INTL FUNDING	Bond 2	\$ 5,497,000	0.2%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

Yes No

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12

Yes No

13. Amounts and percentages of admitted assets held in the 10 largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

Yes No

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

Yes No

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

Yes No

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

Yes No

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: Not applicable.

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
18.01 Are assets held in real estate reported in Schedule A, excluding property occupied by the company, less than 2.5% of the reporting entity's total admitted assets?
If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Yes No

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans:
19.01 Are assets held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?

Yes No

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End		1st Qtr	At End of Each Quarter	3rd Qtr
		1	2	3	2nd Qtr	4
		1	2	3	4	5
20.01	Securities lending	\$—	—%	\$—	\$—	\$—
20.02	Repurchase agreements	\$—	—%	\$—	\$—	\$—
20.03	Reverse repurchase agreements	\$—	—%	\$—	\$—	\$—
20.04	Dollar repurchase agreements	\$—	—%	\$—	\$—	\$—
20.05	Dollar reverse repurchase agreements	\$—	—%	\$—	\$—	\$—

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories, Continued
December 31, 2018

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	\$—	—%	\$—	—%
21.02	Income generation	\$—	—%	\$—	—%
21.03	Other	\$—	—%	\$—	—%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year-End		At End of Each Quarter		
		1	2	1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	\$—	—%	\$—	\$—	\$—
22.02	Income generation	\$—	—%	\$—	\$—	\$—
22.03	Replications	\$—	—%	\$—	\$—	\$—
22.04	Other	\$—	—%	\$—	\$—	\$—

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End		At End of Each Quarter		
		1	2	1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	\$—	—%	\$—	\$—	\$—
23.02	Income generation	\$—	—%	\$—	\$—	\$—
23.03	Replications	\$—	—%	\$—	\$—	\$—
23.04	Other	\$—	—%	\$—	\$—	\$—

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Annual Financial Statement

December 31, 2018

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of State Farm Life and Accident Assurance Company and Contract Owners of the State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Opinions on the Financial Statements

We have audited the accompanying statements of assets and contract owners' equity of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock iShares Dynamic Allocation V.I., BlackRock S&P 500 Index V.I., BlackRock Government Money Market V.I. and BlackRock Total Return V.I. of State Farm Life and Accident Assurance Company Variable Annuity Separate Account as of December 31, 2018, and the related statements of operations and of changes in contract owners' equity for each of the subaccounts of State Farm Life and Accident Assurance Company Variable Annuity Separate Account indicated in the table below for each of the periods indicated in the table below, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock iShares Dynamic Allocation V.I., BlackRock S&P 500 Index V.I., BlackRock Government Money Market V.I. and BlackRock Total Return V.I. in the State Farm Life and Accident Assurance Company Variable Annuity Separate Account as of December 31, 2018, and for each of the subaccounts in the State Farm Life and Accident Assurance Company Variable Annuity Separate Account indicated in the table below, the results of each of their operations and the changes in each of their contract owners' equity for the periods indicated in the table below, in conformity with accounting principles generally accepted in the United States of America.

BlackRock Small Cap Index V.I. (1)	Bond (2)
BlackRock International Index V.I. (1)	Money Market (2)
BlackRock iShares Dynamic Allocation V.I. (1)	International Equity Index (2)
BlackRock S&P 500 Index V.I. (1)	Stock and Bond Balanced (2)
BlackRock Government Money Market V.I. (1)	Large Cap Equity (3)
BlackRock Total Return V.I. (1)	Small/Mid Cap Equity (3)
Large Cap Equity Index (2)	International Equity (3)
Small Cap Equity Index (2)	

- (1) Statement of operations and statement of changes in contract owners' equity for the period October 26, 2018 (commencement of operations) to December 31, 2018
- (2) Statement of operations for the period January 1, 2018 to October 26, 2018 (date of merger) and statement of changes in contract owners' equity for the period January 1, 2018 to October 26, 2018 (date of merger) and the year ended December 31, 2017
- (3) Statement of operations for the period January 1, 2018 to October 18, 2018 (date of liquidation) and statement of changes in contract owners' equity for the period January 1, 2018 to October 18, 2018 (date of liquidation) and the year ended December 31, 2017

Basis for Opinions

These financial statements are the responsibility of the State Farm Life and Accident Assurance Company's management. Our responsibility is to express an opinion on the financial statements of each of

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the subaccounts in the State Farm Life and Accident Assurance Variable Annuity Separate Account based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to each of the subaccounts in the State Farm Life and Accident Assurance Variable Annuity Separate Account in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of December 31, 2018 by correspondence with the transfer agents of the investee mutual funds. We believe that our audits provide a reasonable basis for our opinions.

PriceWaterhouseCoopers LLP

February 28, 2019

We have served as the auditor of one or more of the subaccounts in State Farm Life and Accident Assurance Company Variable Annuity Separate Account since 1999.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Assets and Contract Owners' Equity
December 31, 2018**

	<u>BlackRock Small Cap Index V.I. Subaccount</u>	<u>BlackRock International Index V.I. Subaccount</u>	<u>BlackRock iShares Dynamic Allocation V.I. Subaccount</u>	<u>BlackRock S&P 500 Index V.I. Subaccount</u>	<u>BlackRock Government Money Market V.I. Subaccount</u>	<u>BlackRock Total Return V.I. Subaccount</u>
Assets:						
Investments, at market value (1)(2)						
BlackRock Small Cap Index V.I. Fund	\$ 5,980,319	\$ —	\$ —	\$ —	\$ —	\$ —
BlackRock International Index V.I. Fund	—	4,442,253	—	—	—	—
BlackRock iShares Dynamic Allocation V.I. Fund	—	—	2,251,633	—	—	—
BlackRock S&P 500 Index V.I. Fund	—	—	—	14,867,186	—	—
BlackRock Government Money Market V.I. Fund	—	—	—	—	1,612,425	—
BlackRock Total Return V.I. Fund	—	—	—	—	—	3,543,125
Total Assets	<u>\$5,980,319</u>	<u>\$4,442,253</u>	<u>\$2,251,633</u>	<u>\$14,867,186</u>	<u>\$1,612,425</u>	<u>\$3,543,125</u>
Liabilities:						
Total Liabilities	—	—	—	—	—	—
Net Assets	<u>\$5,980,319</u>	<u>\$4,442,253</u>	<u>\$2,251,633</u>	<u>\$14,867,186</u>	<u>\$1,612,425</u>	<u>\$3,543,125</u>
Net Assets:						
Contract Owners' Equity (3)	\$5,980,319	\$4,442,253	\$2,251,633	\$14,867,186	\$1,612,425	\$3,543,125
Net Assets	<u>\$5,980,319</u>	<u>\$4,442,253</u>	<u>\$2,251,633</u>	<u>\$14,867,186</u>	<u>\$1,612,425</u>	<u>\$3,543,125</u>
(1) Investments, at cost	\$8,043,435	\$6,127,124	\$2,364,792	\$16,541,178	\$1,612,425	\$3,504,946
(2) Shares Owned	622,950	556,673	218,181	725,229	1,612,425	307,296
(3) Accumulation Unit Value	\$ 29,28	\$ 16,26	\$ 24,31	\$ 27,54	\$ 11,52	\$ 18,27
(3) Units Outstanding	204,226	273,190	92,611	539,740	139,938	193,941

See Note 1 for disclosures of changes in subaccounts during 2018.

The accompanying notes are an integral part of the financial statements.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Operations
For the Year Ended December 31, 2018**

	1/1/2018 to 10/26/2018				1/1/2018 to 10/18/2018				
	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Investment income:									
Dividend income	\$ 576,705	\$ —	\$ 76,436	\$ 11,027	\$ 9,945	\$ 68,893	\$ —	\$ —	\$ —
Expenses:									
Mortality and expense risk charges	162,755	71,987	35,461	8,687	49,734	23,989	5,272	2,988	1,403
Net investment income (loss)	413,950	(71,987)	40,975	2,340	(39,789)	44,904	(5,272)	(2,988)	(1,403)
Realized gain (loss)	6,888,269	2,570,795	3,929	(26)	1,025,651	(51,381)	217,332	87,569	38,164
Realized gain distributions	1,281,135	53,576	1,052	—	14,484	865,947	—	—	—
Change in unrealized appreciation (depreciation), net	(8,552,309)	(2,772,499)	(142,992)	35	(1,612,188)	(882,045)	(190,814)	(80,170)	(51,793)
Net realized and unrealized gain (loss) on investments	(382,905)	(148,128)	(138,011)	9	(572,053)	(67,479)	26,518	7,399	(13,629)
Net increase (decrease) in contract owners' equity from operations	\$ 31,045	\$ (220,115)	\$ (97,036)	\$ 2,349	\$ (611,842)	\$ (22,575)	\$ 21,246	\$ 4,411	\$ (15,032)

See Note 1 for disclosures of changes in subaccounts during 2018.

The accompanying notes are an integral part of the financial statements.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Operations, Continued
For the Year Ended December 31, 2018**

	10/26/2018 to 12/31/2018					
	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock iShares Dynamic Allocation V.I. Subaccount	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
Investment income:						
Dividend income	\$ 89,251	\$ 222,857	\$ 23,335	\$ 169,499	\$ 6,090	\$ 18,500
Expenses:						
Mortality and expense risk charges	13,295	9,305	4,670	31,879	3,346	7,174
Net investment income (loss)	75,956	213,552	18,665	137,620	2,744	11,326
Realized gain (loss)	(6,928)	(6,194)	448	242	—	162
Realized gain distributions	1,393,618	1,320,673	31,955	665,054	—	—
Change in unrealized appreciation (depreciation), net	(2,063,116)	(1,684,871)	(113,158)	(1,673,991)	—	38,179
Net realized and unrealized gain (loss) on investments	(676,426)	(370,392)	(80,755)	(1,008,695)	—	38,341
Net increase (decrease) in contract owners' equity from operations	\$ (600,470)	\$ (156,840)	\$ (62,090)	\$ (871,075)	\$ 2,744	\$ 49,667

See Note 1 for disclosures of changes in subaccounts during 2018.

The accompanying notes are an integral part of the financial statements.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Changes in Contract Owners' Equity
For the Year Ended December 31, 2018**

	1/1/2018 to 10/26/2018					1/1/2018 to 10/18/2018			
	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	\$ 413,950	\$ (71,987)	\$ 40,975	\$ 2,340	\$ (39,789)	\$ 44,904	\$ (5,272)	\$ (2,988)	\$ (1,403)
Realized gain (loss)	8,169,404	2,624,371	4,981	(26)	1,040,135	814,566	217,332	87,569	38,164
Change in unrealized appreciation (depreciation), net	(8,552,309)	(2,772,499)	(142,992)	35	(1,612,188)	(882,045)	(190,814)	(80,170)	(51,793)
Net realized and unrealized gain (loss) on investments	(382,905)	(148,128)	(138,011)	9	(572,053)	(67,479)	26,518	7,399	(13,629)
Net increase (decrease) in contract owners' equity from operations	31,045	(220,115)	(97,036)	2,349	(611,842)	(22,575)	21,246	4,411	(15,032)
Contract owners' equity transactions:									
Proceeds from units purchased	177,720	84,788	66,196	9,880	97,724	19,713	9,866	7,770	1,990
Transfers between subaccounts including fixed account, net	(16,125,044)	(6,782,910)	(3,461,184)	(867,572)	(4,596,137)	(2,325,319)	(546,092)	(303,725)	(134,957)
Payments for surrenders and other redemptions	(1,011,599)	(419,331)	(540,541)	(82,802)	(295,919)	(214,025)	(60,796)	(51,611)	(2,970)
Net increase (decrease) in contract owners' equity derived from contract owners' equity transactions	(16,958,923)	(7,117,453)	(3,935,529)	(940,494)	(4,794,332)	(2,519,631)	(597,022)	(347,566)	(135,937)
Total increase (decrease) in contract owners' equity	(16,927,878)	(7,337,568)	(4,032,565)	(938,145)	(5,406,174)	(2,542,206)	(575,776)	(343,155)	(150,969)
Contract owners' equity:									
Beginning of year	16,927,878	7,337,568	4,032,565	938,145	5,406,174	2,542,206	575,776	343,155	150,969
End of year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

See Note 1 for disclosures of changes in subaccounts during 2018.

The accompanying notes are an integral part of the financial statements.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Changes in Contract Owners' Equity, Continued
For the Year Ended December 31, 2018**

	10/26/2018 to 12/31/2018					
	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock iShares Dynamic Allocation V.I. Subaccount	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
Operations:						
Net investment income (loss)	\$ 75,956	\$ 213,552	\$ 18,665	\$ 137,620	\$ 2,744	\$ 11,326
Realized gain (loss)	1,386,690	1,314,479	32,403	665,296	—	162
Change in unrealized appreciation (depreciation), net	(2,063,116)	(1,684,871)	(113,158)	(1,673,991)	—	38,179
Net realized and unrealized gain (loss) on investments	(676,426)	(370,392)	(80,755)	(1,008,695)	—	38,341
Net increase (decrease) in contract owners' equity from operations	(600,470)	(156,840)	(62,090)	(871,075)	2,744	49,667
Contract owners' equity transactions:						
Proceeds from units purchased	20,308	18,360	1,615	47,763	4,476	13,866
Transfers between subaccounts including fixed account, net	6,690,772	4,643,366	2,329,884	15,925,662	1,685,211	3,563,185
Payments for surrenders and other redemptions	(130,291)	(62,633)	(17,776)	(235,164)	(80,006)	(83,593)
Net increase (decrease) in contract owners' equity derived from contract owners' equity transactions	6,580,789	4,599,093	2,313,723	15,738,261	1,609,681	3,493,458
Total increase (decrease) in contract owners' equity	5,980,319	4,442,253	2,251,633	14,867,186	1,612,425	3,543,125
Contract owners' equity:						
Beginning of year	—	—	—	—	—	—
End of year	\$ 5,980,319	\$ 4,442,253	\$ 2,251,633	\$ 14,867,186	\$ 1,612,425	\$ 3,543,125

See Note 1 for disclosures of changes in subaccounts during 2018.

The accompanying notes are an integral part of the financial statements.

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

**Statement of Changes in Contract Owners' Equity, Continued
For the Year Ended December 31, 2017**

	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	\$ 111,250	\$ (3,632)	\$ 56,748	\$ (4,958)	\$ 86,277	\$ 26,000	\$ (1,392)	\$ (1,819)	\$ (1,036)
Realized gain (loss)	513,568	439,823	4,254	—	94,192	86,863	38,190	31,240	3,831
Change in unrealized appreciation (depreciation), net	2,285,893	429,431	(16,675)	(1)	888,435	173,777	72,083	3,672	39,714
Net realized and unrealized gain (loss) on investments	2,799,461	869,254	(12,421)	(1)	982,627	260,640	110,273	34,912	43,545
Net increase (decrease) in contract owners' equity from operations	2,910,711	865,622	44,327	(4,959)	1,068,904	286,640	108,881	33,093	42,509
Contract owners' equity transactions:									
Proceeds from units purchased	232,174	103,107	86,118	12,954	128,441	53,275	14,007	11,608	3,118
Transfers between subaccounts including fixed account, net	(42,332)	(45,123)	68,004	29,683	(33,748)	16,443	5,858	14,889	(1,532)
Payments for surrenders and other redemptions	(894,383)	(367,387)	(263,825)	(82,249)	(280,917)	(69,945)	(67,637)	(46,209)	(32,221)
Net increase (decrease) in contract owners' equity derived from contract owners' equity transactions	(704,541)	(309,403)	(109,703)	(39,612)	(186,224)	(227)	(47,772)	(19,712)	(30,635)
Total increase (decrease) in contract owners' equity	2,206,170	556,219	(65,376)	(44,571)	882,680	286,413	61,109	13,381	11,874
Contract owners' equity:									
Beginning of year	14,721,708	6,781,349	4,097,941	982,716	4,523,494	2,255,793	514,667	329,774	139,095
End of year	\$16,927,878	\$7,337,568	\$4,032,565	\$938,145	\$5,406,174	\$2,542,206	\$575,776	\$343,155	\$150,969

The accompanying notes are an integral part of the financial statements.

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Notes to Financial Statements

1. General Information

Organization

The State Farm Life and Accident Assurance Company Variable Annuity Separate Account (the "Separate Account") is a unit investment trust registered under the Investment Company Act of 1940 as amended, established by State Farm Life and Accident Assurance Company (the "Company"). The Separate Account was established by the Company on December 9, 1996. The Company sold a variable annuity insurance product, which has unique combinations of features and fees that are charged against the contract owners' account balances. Under applicable insurance law, the assets and liabilities of the Separate Account are clearly identified and distinguished from the Company's other assets and liabilities. The portion of the Separate Account's assets applicable to the variable annuity contracts is not chargeable with liabilities arising out of any other business the Company may conduct.

The Company discontinued new sales of the variable annuity product during September, 2008; however, the Company continues to administer the existing book of variable annuity contracts.

Portfolio Changes

Prior to October 2018, the assets of the Separate Account were invested in funds of the State Farm Variable Product Trust. During October 2018, all of the funds of the State Farm Variable Product Trust were either liquidated or merged into funds (the "Fund(s)") of BlackRock Variable Series Funds, Inc. and BlackRock Variable Series Funds II, Inc. (the "BVSFs".)

The operations of the following subaccounts were affected by the aforementioned liquidation and merger activity which occurred during in October 2018:

The following subaccounts were substituted into the Money Market subaccount and were subsequently liquidated on October 18, 2018:

Large Cap Equity
Small/Mid Cap Equity
International Equity

The following subaccounts were merged on October 26, 2018:

<u>Original Subaccount</u>	<u>New Subaccount</u>
Large Cap Equity Index	BlackRock S&P 500 Index V.I.
Small Cap Equity Index	BlackRock Small Cap Index V.I.
International Equity Index	BlackRock International Index V.I.
Bond	BlackRock Total Return V.I.
Stock and Bond Balanced	BlackRock iShares Dynamic Allocation V.I.
Money Market	BlackRock Government Money Market V.I.

2. Significant Accounting Policies

Valuation of Investments

As of December 31, 2018, the assets of the Separate Account are invested in one or more of the Funds of the BVSFs at each Fund's net asset value (NAV), which is based on the daily closing market value prices of the

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Notes to Financial Statements, Continued

underlying securities, in accordance with the selection made by the contract owners. The net assets of each subaccount of the Separate Account reflect the investment management fees and other operating expenses incurred by the Funds.

Fair Value

Fair value is defined as the price that the Separate Account would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. All Funds in the Separate Account included in the Statement of Assets and Contract Owners' Equity are stated at fair value and are based upon closing NAV per share and are therefore considered Level 1. The NAVs are published daily by the Funds' managers. The assets of the Separate Account transferred from Level 2 to Level 1 in association with the merger (see Note 1) and were valued at \$32,696,941 as of December 31, 2018.

Security Transactions and Investment Income

Securities transactions are recorded on the trade date (the date the order to buy or sell is executed). Dividend income is recorded on the ex-dividend date. The cost of investments sold and the corresponding capital gains and losses are determined on a specific identification basis. Net investment income (loss) and net realized gains (losses) and unrealized appreciation (depreciation) on investments are allocated to the contracts on each valuation date based on each contract's pro rata share of the assets of the fund as of the beginning of the valuation date.

Accumulation Unit Valuation

On each day the New York Stock Exchange (NYSE) is open for trading, the accumulation unit value is determined as of the earlier of 3:00 PM Central time or the close of the NYSE by dividing the contract owners' share of the value of each fund's investments and other assets, less liabilities, by the number of contract owners' accumulation units outstanding in the respective fund.

The NAV for each Fund is determined as of the time of the close of regular session trading on the NYSE, on each day when the NYSE is open for business. Shares of the Funds will not be priced on days when the NYSE is closed.

Each Fund of the State Farm Variable Product Trust valued its assets at their current market value when market quotations were readily available. Securities for which readily available market quotations were not available, or for those quotations deemed not to be representative of market values, were valued by a method that the Board of Trustees of the Fund believed reflected a fair value. Fair value pricing typically was used when trading for a portfolio security was halted during the day and did not resume prior to the Fund's NAV calculation or when a portfolio security had limited liquidity resulting in no market derived price. Securities also may have been fair valued as a result of significant events that occurred after the close of trading in markets within which the securities traded, but before the time at which the securities were valued for NAV calculation.

Federal Income Taxes

The operations of the Separate Account are included in the federal income tax return of the Company. Under existing federal income tax law, investment income and realized capital gains and losses of the Separate Account affect liabilities under the policies and are, therefore, not taxed. Thus, the Separate Account may realize net investment income and capital gains and losses without federal income tax consequences.

State Farm Life and Accident Assurance Company

Variable Annuity Separate Account

Notes to Financial Statements, Continued

Transfers between subaccounts including the fixed account

Transfers between subaccounts including the fixed account (net) include transfers of all or part of the contract owners' interest to or from another eligible subaccount from or to the fixed account option of the general account of the Company.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that could affect the amounts reported therein, as well as the disclosure of any contingent assets and liabilities. As a result, actual results could differ from the estimates reported in the accompanying financial statements.

3. Expenses and Related Party Transactions

A mortality and expense risk charge, which includes a death benefit guarantee risk charge, is deducted by the Company from the Separate Account on a daily basis, which is equal, on an annual basis, to 1.15% of the daily net asset value of the contract owners' portion of assets in the Separate Account. The daily mortality and expense risk charges are assessed through the reduction in unit values. The charge may be adjusted after contract issue, but it is guaranteed not to exceed 1.25% of net assets. The death benefit guarantee risk charge covers the risk that the death benefit as defined will be greater than the accumulation value. This could result from a decline in the value of the subaccounts due to market performance. Although periodic retirement payments to contract owners vary according to the investment performance of the fund, such payments are not affected by the mortality or expense experience because the Company assumes the mortality risk and the expense risk under the contracts. The mortality risk assumed by the Company results from the life annuity payment option in the contracts in which the Company agrees to make annuity payments regardless of how long a particular annuitant or other payee lives. The annuity payments are determined in accordance with annuity purchase rate provisions established at the time the contracts are issued. There were no net assets allocated to annuitized contracts as of December 31, 2018. Based on the actuarial determination of expected mortality, the Company is required to fund any deficiency in the annuity payment reserves from its general account assets.

A \$30 administrative fee is deducted from the contract accumulation value upon each contract anniversary, full surrender of the contract if not surrendered on the anniversary, or the annuity date, as defined, if that date is not on the contract anniversary. The administrative fee reimburses the Company for administrative expenses relating to the issuance and maintenance of the contract.

The Company reserves the right to deduct a \$25 transfer processing fee from the contract accumulation value of the policy for each subaccount transfer in excess of 12 during a policy year.

During the periods ended October 18, 2018 for the liquidated subaccounts, October 26, 2018 for the subaccounts merged into the BVSFs and the year ended December 31, 2017 for all the following subaccounts, investment advisory and management service fees were paid indirectly to State Farm Investment Management Corp. (SFIMC). Each Fund paid SFIMC an annual fee (computed on a daily basis and paid monthly) at the following annual rates:

Large Cap Equity Fund	0.60% of average daily net assets
Small/Mid Cap Equity Fund	0.80% of average daily net assets

**State Farm Life and Accident Assurance Company
Variable Annuity Separate Account**

Notes to Financial Statements, Continued

International Equity Fund	0.80% of average daily net assets
Large Cap Equity Index Fund	0.10% of average daily net assets
Small Cap Equity Index Fund	0.13% of average daily net assets
International Equity Index Fund	0.15% of average daily net assets
Stock and Bond Balanced Fund	None
Bond Fund	0.50% of average daily net assets
Money Market Fund	0.10% of average daily net assets

After the merger, the Separate Account only invests in Funds of an unrelated party.

4. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 2018 and 2017 are as follows:

<u>Subaccount</u>	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Units Issued</u>	<u>Units Redeemed</u>	<u>Net Increase (Decrease)</u>	<u>Units Issued</u>	<u>Units Redeemed</u>	<u>Net Increase (Decrease)</u>
Large Cap Equity Index	8,030	588,123	(580,093)	13,486	40,149	(26,663)
Small Cap Equity Index	4,362	224,248	(219,886)	6,051	16,182	(10,131)
Bond	12,880	231,143	(218,263)	12,936	18,826	(5,890)
Money Market	88,031	169,777	(81,746)	3,722	7,172	(3,450)
International Equity Index	9,609	293,177	(283,568)	10,648	21,278	(10,630)
Stock and Bond Balanced	1,653	102,216	(100,563)	3,224	3,220	4
Large Cap Equity	609	30,600	(29,991)	1,389	4,203	(2,814)
Small/Mid Cap Equity	545	18,254	(17,709)	1,631	2,728	(1,097)
International Equity	259	9,894	(9,635)	321	2,477	(2,156)
BlackRock Small Cap Index	211,696	7,470	204,226	—	—	—
BlackRock International Index	277,070	3,880	273,190	—	—	—
BlackRock iShares® Dynamic Allocation	93,605	994	92,611	—	—	—
BlackRock S&P 500 Index	551,871	12,131	539,740	—	—	—
BlackRock Government Money Market	153,880	13,942	139,938	—	—	—
BlackRock Total Return	201,503	7,562	193,941	—	—	—

5. Purchases and Sales of Investments

The cost of purchases and proceeds from sales of investments for the year ended December 31, 2018, by each subaccount are shown below:

<u>Subaccount</u>	<u>December 31, 2018</u>	
	<u>Purchases</u>	<u>Sales</u>
Large Cap Equity Index	\$1,952,246	\$17,216,082
Small Cap Equity Index	126,736	7,262,600
Bond	233,374	4,126,877
Money Market	1,009,076	1,947,231

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Notes to Financial Statements, Continued

Subaccount	December 31, 2018	
	Purchases	Sales
International Equity Index	\$ 104,877	\$ 4,924,512
Stock and Bond Balanced	960,811	2,569,591
Large Cap Equity	9,998	612,292
Small/Mid Cap Equity	9,385	359,940
International Equity	3,458	140,799
BlackRock Small Cap Index	8,285,340	234,978
BlackRock International Index	6,194,522	61,204
BlackRock iShares® Dynamic Allocation	2,392,932	28,588
BlackRock S&P 500 Index	16,891,419	350,483
BlackRock Government Money Market	1,773,538	161,113
BlackRock Total Return	3,636,119	131,336
Total	<u>\$43,583,831</u>	<u>\$40,127,626</u>

6. Unit Values and Financial Highlights

A summary of unit values and units outstanding for each subaccount of the Separate Account, net investment income ratios and the expense ratios, excluding expenses of the underlying funds, for each of the five years in the period ended December 31, 2018 are shown below. For the subaccounts liquidated or merged into the BVSFs, the results are through the date of the subaccount liquidation or merger, and therefore were not annualized. For the subaccounts in the BVSFs, the results are from the date of inception through the end of the year.

Subaccount	At December 31, 2018				For the Year Ended December 31, 2018		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	—	\$ —	\$29.18	\$29.16	3.38%	1.15%	NA
Small Cap Equity Index	—	\$ —	\$33.38	\$32.21	0.00%	1.15%	NA
Bond	—	\$ —	\$18.47	\$18.02	2.06%	1.15%	NA
Money Market	—	\$ —	\$11.47	\$11.51	1.22%	1.15%	NA
International Equity Index	—	\$ —	\$19.06	\$16.83	0.19%	1.15%	NA
Stock and Bond Balanced	—	\$ —	\$25.27	\$24.99	2.74%	1.15%	NA
Large Cap Equity	—	\$ —	\$19.20	\$19.95	0.00%	1.15%	NA
Small/Mid Cap Equity	—	\$ —	\$19.38	\$19.68	0.00%	1.15%	NA
International Equity	—	\$ —	\$15.66	\$14.09	0.00%	1.15%	NA
BlackRock Small Cap Index	204,226	\$ 5,980,319	\$32.21	\$29.28	1.35%	1.15%	(9.10)%
BlackRock International Index	273,190	\$ 4,442,253	\$16.83	\$16.26	4.83%	1.15%	(3.39)%
BlackRock iShares® Dynamic Allocation	92,611	\$ 2,251,633	\$24.99	\$24.31	1.01%	1.15%	(2.72)%
BlackRock S&P 500 Index	539,740	\$14,867,186	\$29.16	\$27.54	1.07%	1.15%	(5.56)%
BlackRock Government Money Market	139,938	\$ 1,612,425	\$11.51	\$11.52	0.37%	1.15%	0.09%
BlackRock Total Return	193,941	\$ 3,543,125	\$18.02	\$18.27	0.52%	1.15%	1.39%

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Notes to Financial Statements, Continued

Subaccount	At December 31, 2017				For the Year Ended December 31, 2017		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	580,093	\$16,927,878	\$24.25	\$29.18	1.84%	1.15%	20.33%
Small Cap Equity Index	219,886	\$ 7,337,568	\$29.47	\$33.38	1.07%	1.15%	13.27%
Bond	218,263	\$ 4,032,565	\$18.29	\$18.47	2.56%	1.15%	0.98%
Money Market	81,746	\$ 938,145	\$11.53	\$11.47	0.64%	1.15%	(0.52)%
International Equity Index	283,568	\$ 5,406,174	\$15.37	\$19.06	2.90%	1.15%	24.01%
Stock and Bond Balanced	100,563	\$ 2,542,206	\$22.43	\$25.27	2.23%	1.15%	12.66%
Large Cap Equity	29,991	\$ 575,776	\$15.69	\$19.20	0.87%	1.15%	22.37%
Small/Mid Cap Equity	17,709	\$ 343,155	\$17.54	\$19.38	0.57%	1.15%	10.49%
International Equity	9,635	\$ 150,969	\$11.79	\$15.66	0.47%	1.15%	32.82%

Subaccount	At December 31, 2016				For the Year Ended December 31, 2016		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	606,756	\$14,721,708	\$21.96	\$24.25	2.00%	1.15%	10.43%
Small Cap Equity Index	230,017	\$ 6,781,349	\$24.65	\$29.47	1.16%	1.15%	19.55%
Bond	224,153	\$ 4,097,941	\$18.12	\$18.29	2.80%	1.15%	0.94%
Money Market	85,196	\$ 982,716	\$11.66	\$11.53	0.05%	1.15%	(1.11)%
International Equity Index	294,198	\$ 4,523,494	\$15.41	\$15.37	2.81%	1.15%	(0.26)%
Stock and Bond Balanced	100,559	\$ 2,255,793	\$21.03	\$22.43	2.22%	1.15%	6.66%
Large Cap Equity	32,805	\$ 514,667	\$14.72	\$15.69	1.00%	1.15%	6.59%
Small/Mid Cap Equity	18,806	\$ 329,774	\$15.70	\$17.54	0.39%	1.15%	11.72%
International Equity	11,791	\$ 139,095	\$12.58	\$11.79	0.60%	1.15%	(6.28)%

Subaccount	At December 31, 2015				For the Year Ended December 31, 2015		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	654,306	\$14,370,156	\$21.96	\$21.96	1.71%	1.15%	0.00%
Small Cap Equity Index	243,833	\$ 6,012,613	\$26.21	\$24.65	0.88%	1.15%	(5.95)%
Bond	233,857	\$ 4,237,413	\$18.15	\$18.12	2.78%	1.15%	(0.17)%
Money Market	96,864	\$ 1,129,561	\$11.79	\$11.66	0.00%	1.15%	(1.10)%
International Equity Index	307,754	\$ 4,743,967	\$15.77	\$15.41	2.32%	1.15%	(2.28)%
Stock and Bond Balanced	107,243	\$ 2,255,266	\$21.04	\$21.03	2.17%	1.15%	(0.05)%
Large Cap Equity	30,236	\$ 444,844	\$14.69	\$14.72	1.04%	1.15%	0.20%
Small/Mid Cap Equity	18,354	\$ 288,114	\$16.54	\$15.70	0.65%	1.15%	(5.08)%
International Equity	11,239	\$ 141,434	\$12.74	\$12.58	0.74%	1.15%	(1.26)%

Subaccount	At December 31, 2014				For the Year Ended December 31, 2014		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
Large Cap Equity Index	694,032	\$15,247,717	\$19.60	\$21.96	1.59%	1.15%	12.04%
Small Cap Equity Index	253,772	\$ 6,652,754	\$25.40	\$26.21	0.73%	1.15%	3.19%
Bond	257,238	\$ 4,670,790	\$17.73	\$18.15	3.04%	1.15%	2.37%
Money Market	95,472	\$ 1,126,234	\$11.93	\$11.79	0.00%	1.15%	(1.17)%
International Equity Index	313,354	\$ 4,944,454	\$16.95	\$15.77	3.13%	1.15%	(6.96)%
Stock and Bond Balanced	123,063	\$ 2,588,812	\$19.45	\$21.04	2.13%	1.15%	8.17%
Large Cap Equity	29,822	\$ 438,347	\$12.84	\$14.69	1.31%	1.15%	14.41%
Small/Mid Cap Equity	18,807	\$ 311,201	\$15.95	\$16.54	0.20%	1.15%	3.70%
International Equity	12,327	\$ 157,131	\$13.71	\$12.74	1.12%	1.15%	(7.08)%

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Notes to Financial Statements, Continued

- * The Investment Income Ratio represents the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund, divided by the average net assets. This ratio excludes those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in the unit value or the redemption of units. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.
- ** This ratio represents the annualized contract expenses of the separate account, resulting in a direct reduction of unit values, consisting primarily of mortality and expense charges. Charges that require redemption of contract owner units are excluded. There is no fluctuation in the annualized mortality and expense charge. This ratio does not include the expenses incurred by the underlying funds. Refer to Note 3.
- *** The total return is calculated using the beginning and ending unit value, which reflects the changes in the underlying fund values and reductions related to the Expense Ratio, for the period indicated.