

**STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY VARIABLE LIFE SEPARATE ACCOUNT  
(Registrant)**

**STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY  
(Depositor)**

**P.O. Box 2307  
Bloomington, Illinois 61702-2307  
Telephone (888) 702-2307**

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**STATEMENT OF ADDITIONAL INFORMATION  
Individual Flexible Premium Variable Universal Life Insurance Policy**

This Statement of Additional Information ("SAI") contains additional information regarding the flexible premium variable universal life insurance policy (the "Policy") offered by State Farm Life and Accident Assurance Company ("State Farm," "we," "us," or "our"). This SAI is not a prospectus, and should be read together with the prospectus for the Policy dated May 1, 2020, and the prospectus for the Funds. You may obtain a copy of these prospectuses by writing or calling us at our address or phone number shown above. Capitalized terms in this SAI have the same meanings as in the prospectus for the Policy.

The date of this Statement of Additional Information is May 1, 2020.

**STATEMENT OF ADDITIONAL INFORMATION**  
**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>ADDITIONAL POLICY INFORMATION</b> .....	1
Incontestability .....	1
Misstatement of Age or Sex .....	1
Limited Death Benefit—Suicide Exclusion .....	1
Assignment .....	1
Change of Owner .....	1
The Beneficiary .....	1
Dividends .....	1
Changing Death Benefit Options .....	2
<b>ADDITIONAL INFORMATION</b> .....	2
The Compliance and Ethics Forum for Life Insurers .....	2
Potential Conflicts of Interest .....	2
Addition, Deletion or Substitution of Investments .....	2
Safekeeping of Account Assets .....	3
Reports to Policy Owners .....	3
Principal Underwriter .....	3
Underwriting Procedures .....	3
Experts .....	4
The Company .....	4
Other Information .....	4
Financial Statements .....	4

## **ADDITIONAL POLICY INFORMATION**

### **Incontestability**

The Policy limits our right to contest the Policy as issued or as increased, for reasons of material misstatements contained in the application, after it has been in force during the Insured's lifetime for a minimum period, generally for two years from the Issue Date of the Policy or effective date of the increase.

### **Misstatement of Age or Sex**

State Farm will adjust the Death Benefit if the application misstates the Insured's Age or sex.

### **Limited Death Benefit—Suicide Exclusion**

The Policy limits the Death Benefit if the Insured dies by suicide generally within two years after the Issue Date of the Policy or effective date of the increase.

### **Assignment**

You may assign the Policy subject to its terms. We are not deemed to know of an assignment unless we receive a written copy of it at our Variable Operation Center. We assume no responsibility for the validity or effect of any assignment. In certain circumstances, an assignment may be a taxable event. See "Tax Considerations" in the prospectus.

### **Change of Owner**

When allowed by law, you may change the Owner of the Policy by sending a written request to our Variable Operation Center while the Insured is alive and the Policy is in force. The change will take effect the date you sign the written request, but the change will not affect any action we have taken before we receive the written request. A change of Owner does not change the Beneficiary designation. A change of Owner may have adverse tax consequences. You should consult a tax advisor before changing an Owner.

### **The Beneficiary**

You designate the Beneficiary(ies) when you apply for the Policy. The Beneficiary is entitled to the insurance benefits under the Policy. You may change the Beneficiary or the order of payment during the Insured's lifetime by providing a written request to the Variable Operation Center. We will effect your change on the date you sign the request or on any later date specified in the request, but the change will not affect any action we have taken before we receive the request. When the Insured dies, we will make payment in equal shares to the primary Beneficiary(ies) living when payment is made. If a primary Beneficiary dies after the first payment is made, we will pay that primary Beneficiary's unpaid share in equal shares to the other primary Beneficiaries living when payment is made. If the last primary Beneficiary dies, we will make payment in equal shares to the successor beneficiaries living when payment is made. If a successor dies when receiving payments, we will pay that successor Beneficiary's unpaid share in equal shares to the other successor Beneficiaries 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 you are alive when payment is made. Otherwise, we will make a one-sum payment to the estate of the last survivor of you and all Beneficiaries.

### **Dividends**

The Policy is participating. However, we do not anticipate paying any dividends on the Policy.

### **Changing Death Benefit Options**

You may change the Death Benefit Option on your Policy subject to the following rules:

You must submit each change by written request that we receive at our Variable Operation Center, and you may only change the Death Benefit Option once in any Policy Year. We will process each change on the date we receive your written request at our Variable Operation Center. We will send you revised Policy schedule pages reflecting the new Death Benefit Option and the effective date of the change.

If you request a change from Option 1 to Option 2, the Basic Amount will be decreased by the Policy Account Value on the effective date of the change. When you make a change from Option 2 to Option 1, the Basic Amount after the change will be increased by the Policy Account Value on the effective date of the change. The minimum monthly premium for the Death Benefit Guarantee will also change when you change a Death Benefit Option. Changing the Death Benefit option may have tax consequences and you should consult a tax advisor before doing so.

### **ADDITIONAL INFORMATION**

#### **The Compliance and Ethics Forum for Life Insurers**

We and State Farm Life Insurance Company are members of The Compliance and Ethics Forum for Life Insurers (CEFLI). CEFLI is an independent and voluntary organization created by the American Council of Life Insurance (ACLI) to improve customer confidence in the life insurance industry. Life insurers that are members of CEFLI agree to meet and maintain high standards of ethical conduct in their dealings with consumers for individual life insurance and annuity products.

#### **Potential Conflicts of Interest**

The Funds currently sell shares to separate accounts to serve as the underlying investment for both variable life insurance policies and variable annuity contracts. We currently do not foresee any disadvantage to Owners arising from the sale of shares to support variable life insurance policies and variable annuity contracts. However, we will monitor events in order to identify any material irreconcilable conflicts that may possibly arise. In that event, we would determine what action, if any, should be taken in response to those events or conflicts. In addition, if we believe that a Fund's response to any of those events or conflicts insufficiently protects Owners, we will take appropriate action on our own, including withdrawing the Variable Account's investment in that Fund.

The Funds also may sell shares directly to certain pension and retirement plans qualifying under Section 401 of the Internal Revenue Code of 1986, as amended. As a result, there is a possibility that a material conflict may arise between the interests of Owners of this Policy or other policies or contracts (including policies issued by other companies), and such retirement plans or participants in such retirement plans. In the event of any such material conflicts, we will consider what action may be appropriate, including removing the Fund as an investment option under the Policies or replacing the Fund with another fund.

See the Funds' prospectuses for more detail.

#### **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 or 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 1940 Act if such registration is no longer required; and
- (8) operate the variable Account as a management investment company under the 1940 Act or in any other form permitted by law.

The investment policy of the Variable Account will be changed only 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**

We hold the Variable Account's assets physically segregated and apart from the general account. We maintain records of all purchases and sale of portfolio shares by each of the Subaccounts. A fidelity bond in the amount of \$5 million covering our directors, officers, and employees has been issued by National Union Fire Insurance Company.

### **Reports to Policy Owners**

State Farm maintains records and accounts of all transactions involving the Policy, the Variable Account, the Fixed Account and the Loan Account at its Variable Operation Center. Each year, or more often if required by law, we will send you a report showing information about your Policy for the period covered by the report. State Farm also will send you an annual and a semi-annual report for each Fund underlying a Subaccount to which you have allocated Policy Account Value, as required by the 1940 Act. In addition, when you pay premiums (other than by pre-authorized checking account deduction) or if you take out a Policy loan, make transfers or make withdrawals, you will receive a written confirmation of these transactions.

### **Principal Underwriter**

State Farm VP Management Corp., the principal underwriter of the Policy, is located at One State Farm Plaza, Bloomington, Illinois 61710-0001. 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 \$43,638 in 2019, \$5,788 in 2018 and \$24,045 in 2017, as commissions for serving as principal underwriter of the Policy. State Farm VP Management Corp. did not retain any commissions in 2019, 2018 and 2017.

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

### **Underwriting Procedures**

State Farm will follow its established insurance underwriting procedures for life insurance designed to determine whether the proposed Insured is insurable. This process may involve such verification procedures as medical examinations and may require that further information be provided about the proposed Insured before a determination can be made.

## **Experts**

The statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2019 and 2018, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2019, 2018 and 2017, 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 policy owners' equity of the State Farm Life and Accident Assurance Company Variable Life Separate Account at December 31, 2019, and the results of its operations for the year then ended, and the changes in its policy owners' equity for each of the two years in the period ended December 31, 2019, 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.

## **The Company**

We are an Illinois stock life insurance company and are wholly owned by State Farm Mutual Automobile Insurance Company, an Illinois mutual insurance company. We were incorporated in 1960 and have been continuously engaged in the life insurance business since that year. We are subject to regulation by the Insurance Department of the State of Illinois, as well as by the insurance departments of all other states and jurisdictions in which we do business. We sell insurance in New York and Wisconsin and we are licensed in Illinois and Connecticut. We submit annual statements on our operations and finances to insurance officials in such states and jurisdictions. The Policy described in the prospectus and this SAI has been filed with and, where required, approved by, insurance officials in those jurisdictions where it is sold.

## **Other Information**

State Farm has filed a registration statement under the Securities Act of 1933, as amended, with the SEC relating to the offering described in the prospectus. The prospectus and SAI do not include all the information set forth in the registration statement. Statements contained in this SAI concerning the content of the Policies and other legal instruments are intended to be summaries. You may obtain the omitted information at the SEC's principal office at 100 F Street, N.E., Washington, DC 20549 by paying the SEC's prescribed fees. The omitted information is also available at the SEC's Internet site (<http://www.sec.gov>).

## **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, 2019 and 2018, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2019, 2018 and 2017, as well as the Report of the Independent Registered Public Accounting Firm, appears in this 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 policy owners' equity of the State Farm Life and Accident Assurance Company Variable Life Separate Account at December 31, 2019, and the results of its operations for the year then ended, and the changes in its policy owners' equity for each of the two years in the period ended December 31, 2019, also appear in the SAL.

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, 2019, 2018, and 2017**

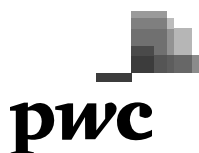


**State Farm Life and Accident Assurance Company**  
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

**Table of Contents**

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	<b>Page(s)</b>
Independent Auditor's Report .....	F-1-F-2
Financial Statements:	
Statements of Admitted Assets, Liabilities, Capital and Surplus—Statutory Basis as of December 31, 2019 and 2018 .....	F-3
Statements of Operations and Change in Capital and Surplus—Statutory Basis for the years ended December 31, 2019, 2018, and 2017 .....	F-4
Statements of Cash Flows—Statutory Basis for the years ended December 31, 2019, 2018, and 2017 .....	F-5
Notes to Financial Statements—Statutory Basis .....	F-6-F-36
Independent Auditor's Report on Supplemental Financial Information .....	F-38
Supplemental Schedule of Assets and Liabilities for the year ended December 31, 2019 .....	F-39-F-40
Supplemental Summary Investment Schedule for the year ended December 31, 2019 .....	F-41
Supplemental Investment Risk Interrogatories for the year ended December 31, 2019 .....	F-42-F-46



## **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 surplus as of December 31, 2019 and 2018, and the related statutory statements of income and changes in surplus, and of cash flows for each of the three years in period ended December 31, 2019.

### ***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.

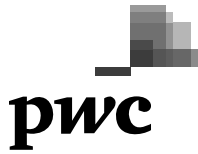
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In 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.

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PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606  
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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, 2019 and 2018, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2019.

***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 surplus of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 2.

*PricewaterhouseCoopers LLP*

February 25, 2020

**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, 2019 and 2018**

	2019	2018
<b>ADMITTED ASSETS</b>		
Bonds:		
United States government .....	\$ 145,723	\$ 151,039
Canadian government and subdivisions .....	2,495	3,494
Other governmental units .....	875,487	875,248
Industrial and other .....	1,804,563	1,695,672
	<u>2,828,268</u>	<u>2,725,453</u>
Common stocks .....	65,464	507
Contract loans .....	173,784	171,302
Cash (overdraft) .....	(1,657)	(1,000)
Cash equivalents .....	14,206	45,936
Accounts receivable—investment sales .....	33	2
	<u>251,830</u>	<u>216,747</u>
Total cash and invested assets .....	<u>3,080,098</u>	<u>2,942,200</u>
Net deferred tax asset .....	15,041	14,358
Premiums deferred and uncollected .....	1,388	1,325
Investment income due and accrued .....	26,248	26,459
Other assets .....	1,427	941
Assets held in separate accounts .....	59,263	50,023
Total admitted assets .....	<u>\$3,183,465</u>	<u>\$3,035,306</u>
<b>LIABILITIES</b>		
Aggregate reserves for life contracts .....	\$2,164,306	\$2,074,035
Liability for deposit type contracts .....	267,940	263,165
Policy and contract claims .....	7,974	10,986
Policyholders' dividends due and unpaid .....	102	98
Dividends to policyholders payable in the following year .....	19,246	18,839
Advance premiums, deposits and other policy and contract liabilities .....	1,267	1,219
Interest maintenance reserve (IMR) .....	1,975	1,628
Commissions payable .....	873	833
Federal income taxes payable to affiliates .....	4,288	7,993
Postretirement benefits .....	15,074	15,066
Agent termination benefits .....	31,475	24,300
Payable to parent, subsidiaries and affiliates .....	3,790	4,066
Other liabilities .....	12,309	11,323
Liabilities related to separate accounts .....	59,263	50,023
Asset valuation reserve (AVR) .....	18,748	11,537
Total liabilities .....	<u>2,608,630</u>	<u>2,495,111</u>
<b>CAPITAL AND SURPLUS</b>		
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 .....	571,835	537,195
Total capital and surplus .....	<u>574,835</u>	<u>540,195</u>
Total liabilities, capital and surplus .....	<u>\$3,183,465</u>	<u>\$3,035,306</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, 2019, 2018, and 2017**

<b>SUMMARY OF OPERATIONS</b>		<b>2019</b>	<b>2018</b>	<b>2017</b>
Income:				
Premiums and annuity considerations		\$256,737	\$245,330	\$239,543
Net investment income		107,481	105,867	103,658
Other income		1,339	1,932	2,249
		<u>365,557</u>	<u>353,129</u>	<u>345,450</u>
Benefits and other expenses:				
Death benefits		62,616	64,125	56,800
Surrender benefits and other fund withdrawals		57,817	60,409	49,450
Other benefits and claims		25,099	24,008	21,968
Net transfers to or (from) separate accounts		(2,321)	(3,384)	(2,231)
Increase in policy and contract reserves		90,271	91,556	102,858
Commissions		16,307	15,715	15,381
General insurance expenses		33,834	33,788	34,513
Taxes, licenses and fees		4,260	6,527	4,993
		<u>287,883</u>	<u>292,744</u>	<u>283,732</u>
Net gain from operations before dividends to policyholders and federal and foreign income taxes		77,674	60,386	61,718
Dividends to policyholders		19,058	18,429	17,956
Net gain from operations before federal and foreign income taxes		58,616	41,957	43,762
Federal and foreign income taxes incurred (excluding capital gains)		15,219	12,255	17,246
Net gain from operations before net realized capital gains or (losses)		43,397	29,702	26,516
Net realized capital gains (losses), net of transfers to the IMR less capital gains tax		(1,603)	(201)	(742)
Net income (loss)		<u>\$ 41,794</u>	<u>\$ 29,501</u>	<u>\$ 25,774</u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>		<b>2019</b>	<b>2018</b>	<b>2017</b>
Common stock: Balance at beginning and end of year		<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>
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		537,195	500,185	486,258
Net income		41,794	29,501	25,774
Change in net deferred income tax		4,962	2,997	(21,414)
Change in net unrealized capital gains (losses) less capital gains tax		3,931	(131)	(12)
Change in nonadmitted assets		(3,521)	616	13,078
Change in asset valuation reserve		(7,211)	(838)	(1,042)
Additional liability for termination benefits		(5,315)	4,865	(2,457)
Balance at end of year		<u>571,835</u>	<u>537,195</u>	<u>500,185</u>
Total capital and surplus		<u>\$574,835</u>	<u>\$540,195</u>	<u>\$503,185</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, 2019, 2018, and 2017**

<b>CASH FLOW</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash from operations:			
Premiums collected net of reinsurance	\$ 244,087	\$ 231,492	\$ 227,460
Net investment income	101,726	99,935	97,306
Other income	623	617	569
Benefits and loss related items	(116,919)	(116,429)	(94,899)
Net transfers from Separate Accounts	2,213	3,355	2,256
Commissions, expenses paid and other deductions	(51,787)	(53,182)	(53,646)
Dividends paid to policyholders	(1,884)	(1,799)	(1,666)
Federal and foreign income taxes paid	(19,442)	(16,428)	(16,683)
Net cash from operations	158,617	147,561	160,697
Cash from investments:			
Proceeds from investments sold, matured or repaid:			
Bonds	230,729	181,082	161,163
Stocks	1,283	—	—
Other	—	42	—
Total investment proceeds	232,012	181,124	161,163
Cost of investments acquired (long term only):			
Bonds	334,054	302,349	305,249
Stocks	61,256	—	—
Miscellaneous applications	31	—	44
Total investments acquired	395,341	302,349	305,293
Increase in contract loans and premium notes	(3,984)	(2,495)	(4,176)
Net cash from investments	(159,345)	(118,730)	(139,954)
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities	(30,690)	(29,668)	(26,861)
Other cash provided (applied)	(969)	(591)	1,880
Net cash from financing and miscellaneous sources	(31,659)	(30,259)	(24,981)
Net change in cash, cash equivalents, and short-term investments	(32,387)	(1,428)	(4,238)
Cash, cash equivalents, and short-term investments, beginning of year	44,936	46,364	50,602
Cash, cash equivalents, and short-term investments, end of year	12,549	44,936	46,364
Supplemental disclosures of cash flow information for non-cash transactions:			
Deposit type contracts and interest credited	\$ 28,674	\$ 28,799	\$ 30,872
Dividends held or used to pay premiums	16,763	16,427	16,390
Bond exchanges	18,660	26,445	13,084
Capitalized loan interest	6,468	6,518	6,352
Waived premiums	2,767	2,667	2,581
Common stock exchanges	235	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)**

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**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 2019, 92% in 2018, and 91% in 2017. Individual annuity products including variable annuity contracts account for an additional 8% in 2019, 8% in 2018, and 9% in 2017. 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 2019, 2018, and 2017, 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 25, 2020, 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 LLC and Bloomberg. Changes in estimated cash flows from the original purchase assumptions are accounted

**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)**

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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 2019 or 2018. Realized gains and losses on sale of investments are determined by the specific identification method. Net realized gains and 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 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.



**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)**

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**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, 2019, 2018, and 2017, respectively, premiums under individual and group life participating policies were \$236,703, \$226,843, and \$218,462 or 100% of total individual and group life premiums earned. The Company's Statements of Operations for 2019, 2018, and 2017 includes \$19,058, \$18,429, and \$17,956 of policyholder dividends, respectively.

The Company absolutely and irrevocably commits and guarantees that, of the total dividends apportioned for the period beginning January 1, 2020 and ending December 31, 2020, it will pay or cause to be applied during 2020, in all events, annual dividends for participating individual life and annuity policies issued after December 31, 1983, in an amount not less than \$9,000. 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 2017 only, 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 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.

**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)**

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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.

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.

**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)**

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**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 4 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 \$30,803 and \$27,282 at December 31, 2019 and 2018, 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.

**K. Guaranty Fund Assessments**

As of December 31, 2019 and 2018, liabilities of \$231 and \$148, respectively have been recorded for guaranty fund assessments. 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

**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)**

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:	
Premium tax offset applied to annual tax return .....	98
Increases current year:	
Premium tax offset accrual adjustment .....	83
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end .....	\$920

**3. Investments**

**A. Bonds and Other Debt Securities**

The statement value and estimated fair value of investments in debt securities, including short-term investments, at December 31 were as follows:

	December 31, 2019			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments .....	\$ 145,723	\$ 5,205	\$ (140)	\$ 150,788
All other governments .....	3,985	101	(4)	4,082
States, territories and possessions (direct and guaranteed) .....	28,885	1,775	—	30,660
Political subdivisions of states, territories and possessions (direct and guaranteed) .....	166,772	6,450	(187)	173,035
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions .....	678,340	24,804	(559)	702,585
Industrial and miscellaneous (unaffiliated) .....	1,804,563	75,920	(1,656)	1,878,827
Totals .....	<u>\$2,828,268</u>	<u>\$114,255</u>	<u>\$(2,546)</u>	<u>\$2,939,977</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)**

	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>

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, 2019	
	Statement Value	Fair Value
Due in one year or less .....	\$ 122,889	\$ 125,132
Due after one year through five years .....	1,123,299	1,159,213
Due after five years through ten years .....	1,385,813	1,451,735
Due after ten years .....	196,267	203,897
Totals .....	<u>\$2,828,268</u>	<u>\$2,939,977</u>

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

	2019	2018	2017
Proceeds .....	\$35,192	\$15,462	\$6,686
Gross gains .....	1,120	546	621
Gross losses .....	(1,418)	(89)	—

**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.

**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)**

Restricted assets at December 31 were as follows:

	<u>2019</u>	<u>2018</u>
Bonds on deposit with regulatory authorities .....	\$1,813	\$1,832

**C. Equity Investments**

The cost and fair value of investments in stocks, and gross unrealized gains and losses from these investments as of December 31 were as follows:

		<b>December 31, 2019</b>			
		<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Common .....		\$60,659	\$5,541	\$(736)	\$65,464
		<b>December 31, 2018</b>			
		<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Common .....		\$663	\$—	\$(156)	\$507

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

		<b>2019</b>		<b>2018</b>		<b>2017</b>	
		<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Unaffiliated common .....		\$42	\$(19)	\$—	\$—	\$—	\$—

**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 2019, 2018, and 2017, the Company had realized capital losses due to other-than-temporary declines in the fair value on bonds of \$1,392, \$15, and \$401, respectively.

**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 unrealized losses due to temporary declines in the fair value of investments at December 31 were as follows:

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. governments .....	\$ 11,643	\$ (89)	\$ 6,497	\$ (51)	\$ 18,140	\$ (140)
All other governments .....	—	—	277	(3)	277	(3)
States, territories and possessions (direct and guaranteed) .....	—	—	—	—	—	—
Political subdivisions of states, territories and possessions (direct and guaranteed) .....	14,003	(187)	—	—	14,003	(187)
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions .....	41,735	(489)	5,671	(71)	47,406	(560)
Industrial and miscellaneous (unaffiliated) .....	79,612	(1,394)	19,172	(262)	98,784	(1,656)
Subtotal, debt securities .....	146,993	(2,159)	31,617	(387)	178,610	(2,546)
Unaffiliated stock .....	11,681	(736)	—	—	11,681	(736)
Total temporarily impaired securities .....	<u>\$158,674</u>	<u>\$(2,895)</u>	<u>\$31,617</u>	<u>\$(387)</u>	<u>\$190,291</u>	<u>\$(3,282)</u>

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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**  
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

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

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, 2019.

**E. Realized Capital Gains (Losses)**

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

<b>December 31, 2019</b>			
	<b>Pre-tax Gains (Losses)</b>	<b>Capital Gains Tax</b>	<b>Post-tax Gains (Losses)</b>
Realized capital gains (losses) .....	\$ (23)	\$517	\$ (540)
Less: IMR capital gains (losses) .....	1,345	282	1,063
Capital gains (losses) net of IMR .....	<u>\$(1,368)</u>	<u>\$235</u>	<u>\$(1,603)</u>

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

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

**F. Net Investment Income**

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Bonds .....	\$ 95,992	\$ 95,383	\$ 93,544
Common Stocks .....	538	—	—
Cash, cash equivalents and short-term investments .....	932	576	379
Contract loans and liens .....	10,883	10,700	10,528
Gross investment income .....	108,345	106,659	104,451
Investment expenses .....	(864)	(792)	(793)
Net investment income .....	<u>\$107,481</u>	<u>\$105,867</u>	<u>\$103,658</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)**

**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.

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:

Description	Fair Value Measurements at December 31, 2019				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Cash equivalents .....	\$ 12,581	\$ —	\$—	\$—	\$ 12,581
Stocks:					
Domestic common .....	62,869	—	—	—	62,869
Foreign common .....	2,590	—	—	—	2,590
Mutual funds .....	5	—	—	—	5
Bonds:					
Industrial and miscellaneous .....	—	3,491	—	—	3,491
Separate Accounts .....	59,263	—	—	—	59,263
Total .....	<u>\$137,308</u>	<u>\$3,491</u>	<u>\$—</u>	<u>\$—</u>	<u>\$140,799</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)**

Description	Fair Value Measurements at December 31, 2018				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
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>

The Company recognizes transfers between levels at the end of the reporting period. There were no transfers into or out of Level 3 during 2019. There were transfers between levels for 2018. 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 2019.

**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.

**Level 2 Measurements**

Bonds — These assets include below investment grade bonds that were reported in the financial statements at fair value at the reporting date. Inputs used to calculate fair value are described in Note 6 below.

**4. Separate Accounts**

As of December 31, 2019 and 2018, the Company's separate accounts statement included legally insulated assets of \$59,263 and \$50,023, respectively. The assets legally insulated from the general account as of December 31, 2019 and 2018 are attributed to the following products:

**December 31, 2019**

Product/Transaction	Legally Insulated Assets	Separate Accounts Assets (Not Legally Insulated)
Variable Universal Life .....	\$20,455	\$—
Variable Annuities .....	38,808	—
Total .....	<u>\$59,263</u>	<u>\$—</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)**

**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>

Certain guarantees are provided by the general account. For the years ended December 31, 2019 and 2018 respectively, the general account had paid \$0 and \$5 towards separate accounts guarantees and for the years ended December 2017, 2016, and 2015 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.

Information regarding the Separate Accounts of the Company as of December 31, 2019, 2018, and 2017 is as follows:

	<b>2019</b>				
	(1)	(2)	(3)	(4)	(5)
	<u>Indexed</u>	<u>Nonindexed Guarantee Less Than Equal to 4%</u>	<u>Nonindexed Guarantee More than 4%</u>	<u>Nonguaranteed Separate Accounts</u>	<u>Total</u>
Premiums, considerations or deposits for year ended December 31 .....	\$—	\$—	\$—	\$ 1,761	\$ 1,761
Reserves at December 31:					
For accounts with assets at:					
Fair value .....	—	—	—	59,101	59,101
Amortized cost .....	—	—	—	—	—
Total reserves .....	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$59,101</u>	<u>\$59,101</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 .....	—	—	—	59,101	59,101
At book value without market value adjustment and with current surrender charge of less than 5% .....	—	—	—	—	—
Subtotal .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>59,101</u>	<u>59,101</u>
Not subject to discretionary withdrawal ...	—	—	—	—	—
Total .....	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$59,101</u>	<u>\$59,101</u>

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

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

	<u>2019</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts .....	\$ 1,875
Transfers from separate accounts .....	(4,196)
Net transfers to (from) separate accounts .....	\$(2,321)
Transfers as reported in the Statements of Operations .....	<u>\$(2,321)</u>

	<u>2018</u>				
	(1)	(2)	(3)	(4)	(5)
	Indexed	Nonindexed Guarantee Less Than Equal to 4%	Nonindexed Guarantee More than 4%	Nonguaranteed Separate Accounts	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 .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,969</u>	<u>49,969</u>
Not subject to discretionary withdrawal ...	—	—	—	—	—
Total .....	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$49,969</u>	<u>\$49,969</u>

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

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

	<u>2018</u>
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 .....	\$(3,384)
Transfers as reported in the Statements of Operations .....	<u>\$(3,384)</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 .....	\$(2,231)
Transfers as reported in the Statements of Operations .....	<u>\$(2,231)</u>

**5. 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 or broker quotes are 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.

**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)**

**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.

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

		2019				
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV) Not Practicable (carrying value)
Financial assets:						
Bonds:						
Loan-backed	\$ 753,186	\$ 728,568		753,186		
Other bonds	2,186,791	2,099,700		2,186,791	0	
Unaffiliated stocks	65,464	65,464	65,464			
Cash	(1,657)	(1,657)	(1,657)			
Cash equivalents	14,206	14,206	12,581	1,625		
Short-term investments	—	—				
Contract loans	—	173,784				173,784
Separate accounts	59,263	59,263	59,263			
Financial liabilities:						
Deferred annuity reserves	\$ 284,281	\$ 286,111		284,281		
Settlement options without life contingencies	140,546	140,546		140,546		
Separate accounts	59,263	59,263	59,263			

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

	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 . . . . .	\$ 281,478	\$ 283,137		\$ 281,478			
Settlement options without life contingencies . . . . .	137,083	137,083		137,083			
Separate accounts . . . .	50,023	50,023	50,023				

Not practicable to estimate fair value:

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Contract loans . . . . .	\$173,784	Various	Not applicable	See above

**6. 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.

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

*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, 2019 and 2018, the Company had \$3,530,480 and \$4,115,971, 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 \$18,235 and \$20,050 at December 31, 2019 and 2018, 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.

**B. Annuity Actuarial Reserves and Deposit Type Contract 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, 2019 and 2018 were as follows:

	2019				Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	
<b>Individual Annuities</b>					
Subject to discretionary withdrawal:					
With market value adjustment . . . . .	\$184,325	\$—	\$ —	\$184,325	45.2%
At book value less current surrender charge of 5% or more . . . . .	—	—	—	—	0.0%
At fair value . . . . .	—	—	38,648	38,648	9.5%
Subtotal . . . . .	<u>\$184,325</u>	<u>\$—</u>	<u>\$38,648</u>	<u>\$222,973</u>	<u>54.7%</u>
At book value without adjustment (minimal or no charge or adjustment) . . . . .	150,782	—	—	150,782	37.0%
Not subject to discretionary withdrawal . . . . .	34,051	—	—	34,051	8.3%
Total (gross) . . . . .	<u>\$369,158</u>	<u>\$—</u>	<u>\$38,648</u>	<u>\$407,806</u>	<u>100.0%</u>
Reinsurance ceded . . . . .	—	—	—	—	
Total (net)* . . . . .	<u>\$369,158</u>	<u>\$—</u>	<u>\$38,648</u>	<u>\$407,806</u>	



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

	2019			Total	Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed		
<b>Deposit-Type Contracts</b>					
Subject to discretionary withdrawal:					
With market value adjustment . . . . .	\$ 5,619	\$ —	\$—	\$ 5,619	2.1%
At book value less current surrender charge of 5% or more . . . . .	—	—	—	—	0.0%
At fair value . . . . .	—	—	—	—	0.0%
Subtotal . . . . .	<u>\$ 5,619</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$ 5,619</u>	<u>2.1%</u>
At book value without adjustment (minimal or no charge or adjustment) . . . . .	262,321	—	—	262,321	97.9%
Not subject to discretionary withdrawal . . . . .	—	—	—	—	0.0%
Total (gross) . . . . .	<u>\$267,940</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$267,940</u>	<u>100.0%</u>
Reinsurance ceded . . . . .	—	—	—	—	
Total (net)* . . . . .	<u>\$267,940</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$267,940</u>	
As reported in the Life, and Accident and Health Annual Statement:					
Annuities total (net) . . . . .		\$366,871			
Supplementary contracts with life contingencies total (net) . . . . .		2,287			
Deposit-type contracts . . . . .		<u>267,940</u>			
Subtotal . . . . .		<u>\$637,098</u>			
As reported in the Separate Accounts Annual Statement:					
Annuities total (net) . . . . .		38,648			
Supplementary contracts, total . . . . .		—			
Policyholder dividend and coupon accumulations . . . . .		—			
Policyholder premiums . . . . .		—			
Guaranteed interest contracts . . . . .		—			
Other contract deposit funds . . . . .		—			
Subtotal . . . . .		<u>\$ 38,648</u>			
Total annuity actuarial reserves and deposit-type contract liabilities . . . . .		<u>\$675,746</u>			

\* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes Annuity Disability Reserves of \$18.

**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)**

	2018			Total	Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed		
<b>Individual Annuities</b>					
Subject to discretionary withdrawal:					
With market value adjustment . . . . .	\$180,839	\$—	\$ —	\$180,839	45.2%
At book value less current surrender charge of 5% or more . . . . .	10	—	—	10	0.0%
At fair value . . . . .	—	—	32,644	32,644	8.2%
Subtotal . . . . .	<u>\$180,849</u>	<u>\$—</u>	<u>\$32,644</u>	<u>\$213,493</u>	<u>53.3%</u>
At book value without adjustment (minimal or no charge or adjustment) . . . . .	152,429	—	—	152,429	38.1%
Not subject to discretionary withdrawal . . . . .	34,296	—	—	34,296	8.6%
Total (gross) . . . . .	<u>\$367,574</u>	<u>\$—</u>	<u>\$32,644</u>	<u>\$400,218</u>	<u>100.0%</u>
Reinsurance ceded . . . . .	—	—	—	—	
Total (net)* . . . . .	<u>\$367,574</u>	<u>\$—</u>	<u>\$32,644</u>	<u>\$400,218</u>	

\* Amount with current surrender charge of 5% or more that will have less than a 5% surrender charge in the year after the statement date: \$10

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

	2018				Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	
<b>Deposit-Type Contracts</b>					
Subject to discretionary withdrawal:					
With market value adjustment . . . . .	\$ 6,040	\$ —	\$—	\$ 6,040	2.3%
At book value less current surrender charge of 5% or more . . . . .	—	—	—	—	0.0%
At fair value . . . . .	—	—	—	—	0.0%
Subtotal . . . . .	<u>\$ 6,040</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$ 6,040</u>	<u>2.3%</u>
At book value without adjustment (minimal or no charge or adjustment) . . . . .	257,125	—	—	257,125	97.7%
Not subject to discretionary withdrawal . . . . .	—	—	—	—	0.0%
Total (gross) . . . . .	<u>\$263,165</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$263,165</u>	<u>100.0%</u>
Reinsurance ceded . . . . .	—	—	—	—	
Total (net)* . . . . .	<u>\$263,165</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$263,165</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 . . . . .		<u>263,165</u>			
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)**

**C. Life Actuarial Reserves by Withdrawal Characteristics**

	2019					
	General Account			Separate Account—Guaranteed and Nonguaranteed		
	Account Value	Cash Value	Reserve	Account Value	Cash Value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans:						
Term Policies with Cash Value . . . . .	\$ —	\$ 24,382	\$ 69,056	\$ —	\$ —	\$ —
Universal Life . . . . .	379,249	364,704	368,033	—	—	—
Other Permanent Cash Value Life Insurance . . . . .	—	862,106	961,862	—	—	—
Variable Life . . . . .	—	—	—	—	—	—
Variable Universal Life . . . . .	3,477	3,429	3,518	20,453	20,453	20,453
Not subject to discretionary withdrawal or no cash values:						
Term Policies without Cash Value . . . . .	XXX	XXX	310,105	XXX	XXX	—
Accidental Death Benefits . . . . .	XXX	XXX	267	XXX	XXX	—
Disability—Active Lives . . . . .	XXX	XXX	28,766	XXX	XXX	—
Disability—Disabled Lives . . . . .	XXX	XXX	41,420	XXX	XXX	—
Miscellaneous Reserves . . . . .	XXX	XXX	12,104	XXX	XXX	—
Total (gross: direct + assumed) . . . . .	\$382,726	\$1,254,621	\$1,795,131	\$20,453	\$20,453	\$20,453
Reinsurance Ceded . . . . .	—	—	—	—	—	—
Total (net) . . . . .	<u>\$382,726</u>	<u>\$1,254,621</u>	<u>\$1,795,131</u>	<u>\$20,453</u>	<u>\$20,453</u>	<u>\$20,453</u>
	<u>Amount</u>					
Life & Accident & Health Annual Statement:						
Life Insurance Section, Total (net) . . . . .		\$1,712,574				
Accidental Death Benefits Section, Total (net) . . . . .		267				
Disability—Active Lives Section, Total (net) . . . . .		28,766				
Disability—Disabled Lives Section, Total (net) . . . . .		41,420				
Miscellaneous Reserves Section, Total (net) . . . . .		12,104				
Subtotal . . . . .		<u>\$1,795,131</u>				
Separate Accounts Annual Statement:						
Life insurance, Total . . . . .	\$	20,453				
Accident and health contracts, Total . . . . .		—				
Miscellaneous reserves, Total . . . . .		—				
Subtotal . . . . .	\$	<u>20,453</u>				
Combined Total . . . . .		<u>\$1,815,584</u>				

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

**D. Premium and Annuity Considerations Deferred and Uncollected**

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

Type	December 31, 2019		December 31, 2018	
	Gross	Net of Loading	Gross	Net of Loading
Industrial .....	\$ —	\$ —	\$ —	\$ —
Ordinary new business .....	91	33	83	27
Ordinary renewal .....	1,396	1,164	1,447	1,216
Credit life .....	—	—	—	—
Group life .....	3	3	—	—
Group annuity .....	—	—	—	—
Total .....	<u>\$1,490</u>	<u>\$1,200</u>	<u>\$1,530</u>	<u>\$1,243</u>

**7. Federal Income Taxes**

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

	December 31, 2019			December 31, 2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs .....	\$52,535	\$ 116	\$52,651	\$47,984	\$ 38	\$48,022
Statutory valuation allowance adjustment ..	—	—	—	—	—	—
Adjusted gross DTAs .....	52,535	116	52,651	47,984	38	48,022
Nonadmitted DTAs .....	30,167	—	30,167	26,933	—	26,933
Net admitted DTAs .....	22,368	116	22,484	21,051	38	21,089
DTLs .....	6,436	1,007	7,443	6,731	—	6,731
Net admitted adjusted DTAs (DTLs) .....	<u>\$15,932</u>	<u>\$ (891)</u>	<u>\$15,041</u>	<u>\$14,320</u>	<u>\$ 38</u>	<u>\$14,358</u>

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

	December 31, 2019			December 31, 2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Adjusted gross DTAs expected to be realized after application of the threshold limitation .....	15,041	—	15,041	14,358	—	14,358
Lesser of:						
Adjusted gross DTAs expected to be realized following the balance sheet date; or .....	15,041	—	15,041	14,358	—	14,358
Adjusted gross DTAs allowed per limitation threshold .....	N/A	N/A	84,524	N/A	N/A	78,738
Adjusted gross DTAs offset by gross DTLs ..	7,328	116	7,444	6,693	38	6,731
Total admitted adjusted gross DTAs .....	<u>\$22,369</u>	<u>\$116</u>	<u>\$22,485</u>	<u>\$21,051</u>	<u>\$ 38</u>	<u>\$21,089</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)**

Amounts used in recovery period and threshold limitation calculation:

	<u>2019</u>	<u>2018</u>
Ratio percentage used to determine recovery period and threshold limitation amount . . . . .	1,515.78%	1,611.82%
Total adjusted capital and surplus used to determine recovery period and threshold limitation . . . . .	\$ 588,166	\$ 546,794

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>2019</u>	<u>2018</u>	<u>2017</u>
Current income tax expense (benefit) . . . . .	\$15,281	\$12,440	\$17,270
Adjustment to prior year taxes . . . . .	(62)	(185)	(24)
Combined income taxes incurred . . . . .	\$15,219	\$12,255	\$17,246
Tax (benefit) on capital gains (losses) . . . . .	517	347	778
Current income taxes incurred . . . . .	<u>\$15,736</u>	<u>\$12,602</u>	<u>\$18,024</u>

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>
DTAs:			
Ordinary:			
Policyholder reserves . . . . .	\$21,772	\$20,812	\$ 960
Deferred acquisition costs . . . . .	17,141	15,641	1,500
Policyholder dividends accrual . . . . .	2,152	2,276	(124)
Compensation and benefits accrual . . . . .	8,714	7,970	744
Liability for termination benefits . . . . .	2,267	1,151	1,116
Other . . . . .	489	134	355
Total ordinary DTAs . . . . .	52,535	47,984	4,551
Statutory valuation allowance adjustment . . . . .	—	—	—
Nonadmitted DTAs . . . . .	30,167	26,933	3,234
Admitted ordinary DTAs . . . . .	<u>\$22,368</u>	<u>\$21,051</u>	<u>\$1,317</u>
Capital:			
Investments . . . . .	\$ 116	\$ 38	\$ 78
Total capital DTAs . . . . .	<u>116</u>	<u>38</u>	<u>78</u>
Statutory valuation allowance adjustment . . . . .	—	—	—
Admitted capital DTAs . . . . .	<u>\$ 116</u>	<u>\$ 38</u>	<u>\$ 78</u>
Admitted DTAs . . . . .	<u>\$22,484</u>	<u>\$21,089</u>	<u>\$1,395</u>

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>
DTLs:			
Ordinary:			
Deferred and uncollected premium . . . . .	\$ 177	\$ —	\$ 177
Surplus adjustment for lapsed policies . . . . .	144	63	81
Basis of bonds . . . . .	612	685	(73)
Guaranty funds receivable . . . . .	242	197	45
Reserves transition rule . . . . .	5,212	5,762	(550)
Accrued dividends on stocks . . . . .	14	—	14
Other . . . . .	35	24	11
Total ordinary DTLs . . . . .	<u>\$ 6,436</u>	<u>\$ 6,731</u>	<u>\$ (295)</u>
Capital:			
Investments . . . . .	\$ 1,007	\$ —	\$1,007
Total capital DTLs . . . . .	<u>\$ 1,007</u>	<u>\$ —</u>	<u>\$1,007</u>
DTLs . . . . .	<u>\$ 7,443</u>	<u>\$ 6,731</u>	<u>\$ 712</u>
Net admitted DTAs/DTLs . . . . .	<u>\$15,041</u>	<u>\$14,358</u>	<u>\$ 683</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>2019</u>	<u>2018</u>	<u>Change</u>
Total DTAs . . . . .	\$52,651	\$48,022	\$4,629
Total DTLs . . . . .	<u>7,443</u>	<u>6,731</u>	<u>712</u>
Net DTAs . . . . .	\$45,208	\$41,291	\$3,917
Tax effect of net unrealized (gains) losses . . . . .			1,045
Change in net deferred income tax . . . . .			<u>\$4,962</u>

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

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference were as follows:

	2019		
	Amount	Tax Effect at 21%	Effective Tax Rate
Income after capital gains tax	\$58,077		
Capital gain (loss) tax	517		
Income before taxes	\$58,594	\$12,304	21.00%
Dividends received deduction	(159)	(33)	-0.06%
Change in nonadmitted assets	(1,207)	(253)	-0.43%
Foreign taxes	(259)	(54)	-0.09%
Change in liability for termination benefits	(5,315)	(1,116)	-1.90%
Prior year adjustment	415	87	0.15%
Dividends received deduction—Separate Accounts	(157)	(33)	-0.06%
Interest maintenance reserve	(715)	(150)	-0.26%
Other adjustments	110	22	0.04%
Total	<u>\$51,307</u>	<u>\$10,774</u>	<u>18.39%</u>
Federal income tax incurred		\$15,219	25.97%
Capital gain (loss) taxes incurred		517	0.88%
Change in net deferred income tax		(4,962)	-8.46%
Total statutory income taxes		<u>\$10,774</u>	<u>18.39%</u>

	2018		
	Amount	Tax Effect at 21%	Effective Tax Rate
Income after capital gains tax	\$42,044		
Capital gain (loss) tax	347		
Income before taxes	\$42,391	\$ 8,902	21.00%
Change in nonadmitted assets	542	114	0.27%
Foreign taxes	(95)	(20)	-0.05%
Change in liability for termination benefits	4,865	1,022	2.41%
Prior year adjustment—other	(31)	(7)	-0.02%
Dividends received deduction—Separate Accounts, net of proration	(460)	(96)	-0.23%
Current year permanent differences	107	22	0.05%
Tax reform rate change effect	(353)	(74)	-0.17%
Interest maintenance reserve	(1,230)	(258)	-0.61%
Total	<u>\$45,736</u>	<u>\$ 9,605</u>	<u>22.65%</u>
Federal income tax incurred		\$12,255	28.91%
Capital gain (loss) taxes incurred		347	0.81%
Change in net deferred income tax		(2,997)	-7.07%
Total statutory income taxes		<u>\$ 9,605</u>	<u>22.65%</u>



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

	2017		
	Amount	Tax Effect at 35%	Effective Tax Rate
Income after capital gains tax . . . . .	\$ 43,239		
Capital gain (loss) tax . . . . .	778		
Income before taxes . . . . .	\$ 44,017	\$15,406	35.00%
Change in nonadmitted assets . . . . .	11	4	0.01%
Foreign taxes . . . . .	(58)	(20)	-0.05%
Change in liability for termination benefits . . . . .	(2,457)	(860)	-1.95%
Prior year adjustment—other . . . . .	(22)	(8)	-0.02%
Dividends received deduction—Separate Accounts, net of proration . . . . .	(185)	(65)	-0.15%
Current year permanent differences . . . . .	95	33	0.07%
Tax reform rate change effect . . . . .	72,898	25,515	57.97%
Interest maintenance reserve . . . . .	(1,620)	(567)	-1.29%
Total . . . . .	<u>\$112,679</u>	<u>\$39,438</u>	<u>89.59%</u>
Federal income tax incurred . . . . .		\$17,246	39.18%
Capital gain (loss) taxes incurred . . . . .		778	1.76%
Change in net deferred income tax . . . . .		21,414	48.65%
Total statutory income taxes . . . . .		<u>\$39,438</u>	<u>89.59%</u>

At December 31, 2019, the Company did not have any net operating loss or tax credit carryforwards.

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:

2019 . . . . .	\$517
2018 . . . . .	\$347
2017 . . . . .	\$778

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. The IRS exam team is in the process of completing an exam for tax years 2013 through 2015. The anticipated resolution of the issues is not expected to have a material adverse effect on the surplus of the Company.

The Company files various state income tax returns and those state returns remain subject to examination from 2013 to present in conjunction with the results of federal examinations, unforeseen litigation, and appeals for those years. The Company also filed various amended state income tax returns during 2019 due to the results of the finalized federal examination for years 2000 through 2012. The anticipated resolution of the issues for these state returns is not expected to have a material adverse effect on the equity of the Company.

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

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**8. 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, 2019, 2018, and 2017 was \$736, \$887, and \$1,065, 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, 2019, 2018, and 2017 was \$250, \$261, and \$261, 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, 2019, 2018, and 2017 was \$442, \$611, and \$510, respectively. At December 31, 2019 and December 31, 2018, the Company's share of the accrued post-career benefit liability was \$15,074 and \$15,066, 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**  
(a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company)

**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, 2019, 2018, and 2017.

	<b>Underfunded Agent Termination Benefits</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Change in benefit obligation:			
Benefit obligation at beginning of year	\$24,300	\$26,981	\$22,741
Service cost	769	934	696
Interest cost	1,035	969	930
Actuarial (gain) loss	5,808	(4,176)	3,006
Benefits paid	(437)	(408)	(392)
Benefit obligation at end of year	<u>\$31,475</u>	<u>\$24,300</u>	<u>\$26,981</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —
Reporting entity contribution	437	408	392
Benefits paid	(437)	(408)	(392)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:			
Liabilities recognized			
Accrued benefit costs	\$20,678	\$18,818	\$16,634
Liability for termination benefits	10,797	5,482	10,347
Total liabilities recognized	<u>\$31,475</u>	<u>\$24,300</u>	<u>\$26,981</u>
Components of net periodic benefit cost:			
Service cost	\$ 769	\$ 934	\$ 696
Interest cost	1,035	969	930
Gains and losses	—	196	56
Prior service cost or credit	493	493	493
Total net periodic benefit cost	<u>\$ 2,297</u>	<u>\$ 2,592</u>	<u>\$ 2,175</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</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 . . . . .	\$ 5,482	\$10,347	\$ 7,890
Net prior service cost or credit recognized . . . . .	(493)	(493)	(493)
Net gain and loss arising during the period . . . . .	5,808	(4,176)	3,006
Net gain and loss recognized . . . . .	—	(196)	(56)
Items not yet recognized as a component of net periodic cost—			
current year . . . . .	<u>\$10,797</u>	<u>\$ 5,482</u>	<u>\$10,347</u>
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:			
Net prior service cost or credit . . . . .	3,059	3,553	4,046
Net recognized gains and losses . . . . .	7,737	1,929	6,301
Accumulated benefit obligation . . . . .	\$18,869	\$15,133	\$15,869
Weighted-average assumptions used to determine net periodic benefit cost as of December 31:			
Discount rate . . . . .	4.49%	3.87%	4.61%
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 . . . . .	3.54%	4.49%	3.87%
Rate of compensation increase . . . . .	4.00%*	3.00%*	4.00%*

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

Losses related to the change in the defined benefit obligation for the period ended December 31, 2019 are primarily due to the change in the discount rate used to calculate this obligation.

**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>
2020 . . . . .	\$ 520
2021 . . . . .	\$ 546
2022 . . . . .	\$ 581
2023 . . . . .	\$ 620
2024 . . . . .	\$ 656
2025-2029 . . . . .	\$4,091

**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.

**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)**

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The Company's contribution for the plan was \$127, \$181, and \$175 for 2019, 2018, and 2017, respectively. At December 31, 2019 and December 31, 2018, the fair value of plan assets held in trust was \$13,570,846 and \$11,516,394, respectively.

**9. Other Related Party Transactions**

The Company reported no receivable due from affiliates and \$3,790 and \$4,066 as a payable due to affiliates at December 31, 2019 and December 31, 2018, 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.

The Company reported no dividends to SFMAIC in 2019, 2018, and 2017.

At December 31, 2019 and December 31, 2018, the Company's federal income tax payable to affiliates was \$4,288 and \$7,993, 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 2019, 2018, and 2017 was \$1,026, \$1,034, and \$821, respectively. Rental expense for leased equipment for 2019, 2018, and 2017 was \$3, \$11, and \$27, respectively.

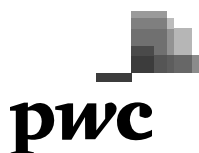
**10. Contingencies**

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.

**11. Other**

The Company committed to purchase \$6,000 of private placement securities which are expected to be funded in 2020. These securities were not reported as bond investments at December 31, 2019.

## **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, 2019 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, 2019 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 25, 2020

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**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, 2019**

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 . . . . .	\$ 4,661
Other bonds (unaffiliated) . . . . .	91,331
Common Stock . . . . .	538
Contract loans and liens . . . . .	10,883
Cash, cash equivalents, and short-term investments . . . . .	932
Gross investment income . . . . .	<u>\$ 108,345</u>
Bonds and short-term investments by class and maturity:	
Bonds by maturity—statement value	
Due within one year or less . . . . .	\$ 122,889
Over 1 year through 5 years . . . . .	1,123,299
Over 5 years through 10 years . . . . .	1,385,813
Over 10 years through 20 years . . . . .	181,157
Over 20 years . . . . .	15,110
Total by maturity . . . . .	<u>\$2,828,268</u>
Bond by class—statement value	
Class 1 . . . . .	\$2,223,218
Class 2 . . . . .	582,465
Class 3 . . . . .	7,499
Class 4 . . . . .	1,555
Class 5 . . . . .	2,047
Class 6 . . . . .	11,484
Total by class . . . . .	<u>\$2,828,268</u>
Total bonds and short-term investments publicly traded . . . . .	<u>\$2,291,869</u>
Total bonds and short-term investments privately placed . . . . .	<u>\$ 536,399</u>
Unaffiliated common stocks—market value . . . . .	<u>\$ 65,464</u>
Cash on deposit . . . . .	<u>\$ (1,657)</u>
Cash equivalents . . . . .	<u>\$ 14,206</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, 2019**

Life insurance in force:	
Ordinary .....	\$45,334,952
Credit life .....	\$ —
Group life .....	\$ 56,554
Amount of accidental death insurance in force under ordinary policies .....	\$ 114,214
Amount of life insurance with disability provisions in force:	
Ordinary .....	\$19,278,534
Group life .....	\$ 56,554
Supplementary contracts in force:	
Ordinary—not involving life contingencies:	
Amount on deposit .....	\$ 123,435
Income payable .....	\$ 174
Ordinary—involving life contingencies:	
Income payable .....	\$ 269
Annuities:	
Ordinary:	
Immediate—amount of income payable .....	\$ 9,541
Deferred—fully paid account balance .....	\$ 325,989
Deferred—not fully paid—account balance .....	\$ 27
Deposit funds and dividend accumulations:	
Deposit funds—account balance .....	\$ 6,934
Dividend accumulations—account balance .....	\$ 120,460

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, 2019**

		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
		Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1.	Long-Term Bonds (Schedule D, Part 1):						
1.01	U.S. governments	\$ 145,723,372	4.73	\$ 145,723,372		\$ 145,723,372	4.73
1.02	All other governments	3,985,279	.13	3,985,279		3,985,279	.13
1.03	U.S. states, territories and possessions, etc. guaranteed	28,884,649	.94	28,884,649		28,884,649	.94
1.04	U.S. political subdivisions of states, territories, and possessions, guaranteed	166,771,504	5.41	166,771,504		166,771,504	5.41
1.05	U.S. special revenue and special assessment obligations, etc. non-guaranteed	678,339,705	22.02	678,339,705		678,339,705	22.02
1.06	Industrial and miscellaneous	1,804,563,480	58.59	1,804,563,480		1,804,563,480	58.59
1.07	Hybrid securities						
1.08	Parent, subsidiaries and affiliates						
1.09	SVO identified funds						
1.10	Unaffiliated bank loans						
1.11	Total long-term bonds	2,828,267,989	91.82	2,828,267,989		2,828,267,989	91.82
2.	Preferred stocks (Schedule D, Part 2, Section 1):						
2.01	Industrial and miscellaneous (Unaffiliated)						
2.02	Parent, subsidiaries and affiliates						
2.03	Total preferred stocks						
3.	Common stocks (Schedule D, Part 2, Section 2):						
3.01	Industrial and miscellaneous Publicly traded (Unaffiliated)	65,458,802	2.13	65,463,650		65,463,650	2.13
3.02	Industrial and miscellaneous Other (Unaffiliated)						
3.03	Parent, subsidiaries and affiliates Publicly traded						
3.04	Parent, subsidiaries and affiliates Other						
3.05	Mutual funds	4,849					
3.06	Unit investment trusts						
3.07	Closed-end funds						
3.08	Total common stocks	65,463,651	2.13	65,463,650		65,463,650	2.13
4.	Mortgage loans (Schedule B):						
4.01	Farm mortgages						
4.02	Residential mortgages						
4.03	Commercial mortgages						
4.04	Mezzanine real estate loans						
4.05	Total mortgage loans						
5.	Real estate (Schedule A):						
5.01	Properties occupied by company						
5.02	Properties held for production of income						
5.03							
5.04	Total real estate						
6.	Cash, cash equivalents and short-term investments:						
6.01	Cash (Schedule E, Part 1)	(1,657,013)	(.05)	(1,657,013)		(1,657,013)	(.05)
6.02	Cash equivalents (Schedule E, Part 2)	14,206,251	.46	14,206,251		14,206,251	.46
6.03	Short-term investments (Schedule DA)						
6.04	Total cash, cash equivalents and short-term investments	12,549,238	.41	12,549,238		12,549,238	.41
7.	Contract loans	173,793,063	5.64	173,784,285		173,784,285	5.64
8.	Derivatives (Schedule DB)						
9.	Other invested assets (Schedule BA)						
10.	Receivables for securities	32,722	.00	32,722		32,722	.00
11.	Securities Lending (Schedule DL, Part 1)						
12.	Other invested assets (Page 2, Line 11)						
13.	Total invested assets	<u>\$3,080,106,664</u>	<u>100.00</u>	<u>\$3,080,097,884</u>		<u>\$3,080,097,884</u>	<u>100.00</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 Investment Risk Interrogatories**  
**December 31, 2019**

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. \$ 3,124,201,674
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	\$325,765,154	10.4%
2.02	FNMA CMO ACES .....	Bonds	\$126,381,448	4.0%
2.03	FHLMC CMO .....	Bonds	\$ 56,863,227	1.8%
2.04	FNMA CMO .....	Bonds	\$ 51,217,032	1.6%
2.05	FRESB MTG TR MULTIFAMILY CMB ..	Bonds	\$ 27,018,058	0.9%
2.06	COCA-COLA CO .....	Bonds, Common Stock	\$ 26,503,506	0.8%
2.07	MARS INC .....	Bonds	\$ 26,472,767	0.8%
2.08	EXXON MOBIL CORP .....	Bonds, Common Stock	\$ 26,267,248	0.8%
2.09	PEPSICO INC .....	Bonds, Common Stock	\$ 25,952,490	0.8%
2.10	JOHNSON & JOHNSON .....	Bonds, Common Stock	\$ 25,435,186	0.8%

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	\$2,223,217,792	71.2%	3.07	P/RP-1	\$— —%
3.02	NAIC-2	\$ 582,464,829	18.6%	3.08	P/RP-2	\$— —%
3.03	NAIC-3	\$ 7,499,009	0.2%	3.09	P/RP-3	\$— —%
3.04	NAIC-4	\$ 1,554,938	%	3.10	P/RP-4	\$— —%
3.05	NAIC-5	\$ 2,047,500	0.1%	3.11	P/RP-5	\$— —%
3.06	NAIC-6	\$ 11,483,922	0.4%	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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
	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 .....	\$250,885,346	8.0%
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, 2019**

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

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC-1 .....	\$250,645,232	8.0%
5.02 Countries designated NAIC-2 .....	\$ 184,707	%
5.03 Countries designated NAIC-3 or below .....	\$ 55,407	%

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

	<u>1</u>	<u>2</u>
Countries designated NAIC-1:		
6.01 Country: Australia .....	\$58,795,329	1.9%
6.02 Country: United Kingdom .....	\$54,487,300	1.7%
Countries designated NAIC-2:		
6.03 Country: Curacao .....	\$ 135,554	%
6.04 Country: Panama .....	\$ 49,153	%
Countries designated NAIC-3 or below:		
6.05 Country: Liberia .....	\$ 55,407	%
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:

	<u>1</u>	<u>2</u>
Countries designated NAIC-1:		
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, 2019**

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

	<b>1</b> <b>Issuer</b>	<b>2</b> <b>NAIC Designation</b>	<b>3</b>	<b>4</b>
10.01	SHELL INTL FIN BV .....	Bonds 1	\$19,431,514	0.6%
10.02	AIR LIQUIDE FINANCE SA .....	Bonds 1	\$ 9,419,432	0.3%
10.03	BASF SE .....	Bonds 1	\$ 8,000,000	0.3%
10.04	BHP BILLITON FIN (USA) LTD .....	Bonds 1	\$ 7,991,911	0.3%
10.05	DANONE SA .....	Bonds 2	\$ 7,503,071	0.2%
10.06	STATNETT SF .....	Bonds 1	\$ 7,000,000	0.2%
10.07	COMPASS GROUP .....	Bonds 1	\$ 7,000,000	0.2%
10.08	TOTAL CAPITAL INTL SA .....	Bonds 1	\$ 6,993,848	0.2%
10.09	WOODSIDE FINANCE LTD .....	Bonds 2	\$ 6,492,013	0.2%
10.10	FONTERRA CO-OP GROUP LTD .....	Bonds 1	\$ 6,005,299	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? Yes ☒ No ☐  
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

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? Yes ☒ No ☐  
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12

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? Yes ☒ No ☐  
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

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? Yes ☒ No ☐  
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

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, 2019**

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? Yes ☒ No ☐  
If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.
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? Yes ☒ No ☐  
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.
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? Yes ☒ No ☐  
If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.
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 1	2	1st Qtr 3	At End of Each Quarter 2nd Qtr 4	3rd Qtr 5
20.01	Securities lending (do not include assets held as collateral for such transactions) . . . . .	\$—	—%	\$—	\$—	\$—
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, 2019**

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		1st Qtr	At End of Each Quarter	3rd Qtr
		1	2	3	2nd Qtr	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		1st Qtr	At End of Each Quarter	3rd Qtr
		1	2	3	2nd Qtr	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 Life Separate Account**

**Annual Financial Statement  
December 31, 2019**

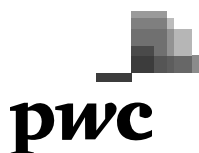


**State Farm Life and Accident Assurance Company**  
**Variable Life Separate Account**

**Index**

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	<u>Page(s)</u>
Report of Independent Registered Public Accounting Firm .....	FS-1-FS-2
Financial Statements:	
Statement of Assets and Policy Owners' Equity, December 31, 2019 .....	FS-3
Statement of Operations for the year ended December 31, 2019 .....	FS-4
Statement of Changes in Policy Owners' Equity for the years ended December 31, 2019 and 2018 .....	FS-5-FS-7
Notes to Financial Statements .....	FS-8-FS-13



## **Report of Independent Registered Public Accounting Firm**

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

### ***Opinions on the Financial Statements***

We have audited the accompanying statements of assets and contract owners' equity and surplus of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock 60/40 Target Allocation ETF 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 Life Separate Account as of December 31, 2019, and the related statements of operations and changes in contract owners' equity and surplus for each of the two years in the period ended December 31, 2019, 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 60/40 Target Allocation ETF 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 Life Separate Account as of December 31, 2019 and the results of each of their operations and the changes in each of their contract owners' equity and surplus for each of the two years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

### ***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 the subaccounts of the State Farm Life and Accident Assurance Variable Life 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 the subaccounts in the State Farm Life and Accident Assurance Variable Life 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.

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



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, 2019, by correspondence with the State Farm Variable Products Trust. We believe that our audits provide a reasonable basis for our opinions.

*PricewaterhouseCoopers LLP*

February 25, 2020

We have served as the auditor of the State Farm Life and Accident Assurance Company Variable Life Separate Account since 1999.

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

**Statement of Assets and Policy Owners' Equity  
December 31, 2019**

	BlackRock Small Cap Index V.I. Subaccount	BlackRock International Index V.I. Subaccount	BlackRock 60/40 Target Allocation ETF V.I. Subaccount*	BlackRock S&P 500 Index V.I. Subaccount	BlackRock Government Money Market V.I. Subaccount	BlackRock Total Return V.I. Subaccount
<b>Assets:</b>						
Investments, at market value (1)(2)						
BlackRock Small Cap Index V.I. Fund	\$3,990,377	\$ —	\$ —	\$ —	\$ —	\$ —
BlackRock International Index V.I. Fund	—	3,043,058	—	—	—	—
BlackRock 60/40 Target Allocation ETF V.I. Fund*	—	—	966,121	—	—	—
BlackRock S&P 500 Index V.I. Fund	—	—	—	10,102,743	—	—
BlackRock Government Money Market V.I. Fund	—	—	—	—	1,143,532	—
BlackRock Total Return V.I. Fund	—	—	—	—	—	1,209,360
<b>Total Assets</b>	<b>\$3,990,377</b>	<b>\$3,043,058</b>	<b>\$966,121</b>	<b>\$10,102,743</b>	<b>\$1,143,532</b>	<b>\$1,209,360</b>
<b>Liabilities:</b>						
<b>Total Liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Assets</b>	<b>\$3,990,377</b>	<b>\$3,043,058</b>	<b>\$966,121</b>	<b>\$10,102,743</b>	<b>\$1,143,532</b>	<b>\$1,209,360</b>
<b>Net Assets:</b>						
Policy Owners' Equity (3)						
<b>Net Assets</b>	<b>\$3,990,377</b>	<b>\$3,043,058</b>	<b>\$966,121</b>	<b>\$10,102,743</b>	<b>\$1,143,532</b>	<b>\$1,209,360</b>
(1) Investments, at cost	\$4,448,529	\$3,487,077	\$863,209	\$ 9,281,106	\$1,143,532	\$1,127,313
(2) Shares Owned	351,885	324,074	79,385	405,082	1,143,532	98,739
(3) Accumulation Unit Value	\$ 39.19	\$ 21.10	\$ 31.50	\$ 38.61	\$ 12.54	\$ 21.35
(3) Units Outstanding	101,808	144,221	30,668	261,638	91,149	56,644
* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.						

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

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

**Statement of Operations  
For the Year Ended December 31, 2019**

	<b>BlackRock Small Cap Index V.I. Subaccount</b>	<b>BlackRock International Index V.I. Subaccount</b>	<b>BlackRock 60/40 Target Allocation ETF V.I. Subaccount*</b>	<b>BlackRock S&amp;P 500 Index V.I. Subaccount</b>	<b>BlackRock Government Money Market V.I. Subaccount</b>	<b>BlackRock Total Return V.I. Subaccount</b>
Investment income:						
Dividend income .....	\$ 48,252	\$ 95,891	\$ 18,586	\$ 203,466	\$22,555	\$32,865
Expenses:						
Mortality and expense risk charges .....	30,203	22,747	7,420	74,769	9,220	9,507
Net investment income (loss) .....	18,049	73,144	11,166	128,697	13,335	23,358
Realized gain (loss) .....	(92,525)	(75,567)	4,616	20,474	—	1,892
Realized gain distributions .....	181,206	1,636	9,071	534,432	—	5,985
Change in unrealized appreciation (depreciation), net .....	693,649	525,028	145,579	1,741,281	—	66,754
Net realized and unrealized gain (loss) on investments .....	782,330	451,097	159,266	2,296,187	—	74,631
Net increase (decrease) in policy owners' equity from operations .....	\$800,379	\$524,241	\$170,432	\$2,424,884	\$13,335	\$97,989

\* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.

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

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

**Statement of Changes in Policy Owners' Equity  
For the Year Ended December 31, 2019**

	<b>BlackRock Small Cap Index V.I. Subaccount</b>	<b>BlackRock International Index V.I. Subaccount</b>	<b>BlackRock 60/40 Target Allocation ETF V.I. Subaccount*</b>	<b>BlackRock S&amp;P 500 Index V.I. Subaccount</b>	<b>BlackRock Government Money Market V.I. Subaccount</b>	<b>BlackRock Total Return V.I. Subaccount</b>
Operations:						
Net investment income (loss) .....	\$ 18,049	\$ 73,144	\$ 11,166	\$ 128,697	\$ 13,335	\$ 23,358
Realized gain (loss) .....	88,681	(73,931)	13,687	554,906	—	7,877
Change in unrealized appreciation (depreciation), net .....	693,649	525,028	145,579	1,741,281	—	66,754
Net realized and unrealized gain (loss) on investments .....	782,330	451,097	159,266	2,296,187	—	74,631
Net increase (decrease) in policy owners' equity from operations .....	800,379	524,241	170,432	2,424,884	13,335	97,989
Policy owners' equity transactions:						
Proceeds from units purchased .....	206,399	192,782	50,866	495,678	92,387	93,895
Transfers between subaccounts including fixed account, net .....	(67,761)	(29,120)	(19,935)	(184,638)	(104,345)	(5,451)
Payments for surrenders and other redemptions .....	(292,182)	(203,750)	(83,595)	(818,052)	(87,622)	(137,224)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions .....	(153,544)	(40,088)	(52,664)	(507,012)	(99,580)	(48,780)
Total increase (decrease) in policy owners' equity .....	646,835	484,153	117,768	1,917,872	(86,245)	49,209
Policy owners' equity: .....						
Beginning of year .....	3,343,542	2,558,905	848,353	8,184,871	1,229,777	1,160,151
End of year .....	<u>\$3,990,377</u>	<u>\$3,043,058</u>	<u>\$966,121</u>	<u>\$10,102,743</u>	<u>\$1,143,532</u>	<u>\$1,209,360</u>

\* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.

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

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

**Statement of Changes in Policy 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)	\$ 44,800	\$ 124,528	\$ 7,565	\$ 81,336	\$ 2,787	\$ 4,336
Realized gain (loss)	775,129	756,077	12,832	361,868	—	(5)
Change in unrealized appreciation (depreciation), net	(1,151,802)	(969,047)	(42,666)	(919,644)	—	12,523
Net realized and unrealized gain (loss) on investments	(376,673)	(212,970)	(29,834)	(557,776)	—	12,518
Net increase (decrease) in policy owners' equity from operations	(331,873)	(88,442)	(22,269)	(476,440)	2,787	16,854
Policy owners' equity transactions:						
Proceeds from units purchased	36,619	34,435	11,850	89,620	19,689	16,425
Transfers between subaccounts including fixed account, net	3,670,033	2,638,157	898,352	8,670,283	1,221,173	1,139,628
Payments for surrenders and other redemptions	(31,237)	(25,245)	(39,580)	(98,592)	(13,872)	(12,756)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	3,675,415	2,647,347	870,622	8,661,311	1,226,990	1,143,297
Total increase (decrease) in policy owners' equity	3,343,542	2,558,905	848,353	8,184,871	1,229,777	1,160,151
Policy owners' equity:						
Beginning of year	—	—	—	—	—	—
End of year	\$ 3,343,542	\$ 2,558,905	\$ 848,353	\$ 8,184,871	\$ 1,229,777	\$ 1,160,151

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 Life Separate Account**

**Statement of Changes in Policy Owners' Equity, Continued  
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)	\$ 252,538	\$ (26,820)	\$ 15,564	\$ 1,422	\$ (14,498)	\$ 19,830	\$ (3,455)	\$ (1,966)	\$ (1,387)
Realized gain (loss)	4,047,600	1,259,473	(25,900)	(18)	459,273	254,113	258,438	84,537	57,990
Change in unrealized appreciation (depreciation), net	(4,274,251)	(1,349,345)	(14,523)	8	(784,780)	(281,112)	(232,772)	(76,943)	(77,958)
Net realized and unrealized gain (loss) on investments	(226,651)	(89,872)	(40,423)	(10)	(325,507)	(26,999)	25,666	7,594	(19,968)
Net increase (decrease) in policy owners' equity from operations	25,887	(116,692)	(24,859)	1,412	(340,005)	(7,169)	22,211	5,628	(21,355)
Policy owners' equity transactions:									
Proceeds from units purchased	430,016	176,958	90,713	25,177	172,175	42,352	25,687	19,426	12,519
Transfers between subaccounts including fixed account, net	(8,787,613)	(3,718,222)	(1,088,266)	(210,449)	(2,597,784)	(876,314)	(536,435)	(303,671)	(195,585)
Payments for surrenders and other redemptions	(571,443)	(216,329)	(92,114)	(73,580)	(176,725)	(72,464)	(28,333)	(9,655)	(7,737)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	(8,929,040)	(3,757,593)	(1,089,667)	(258,852)	(2,602,334)	(906,426)	(539,081)	(293,900)	(190,803)
Total increase in policy owners' equity	(8,903,153)	(3,874,285)	(1,114,526)	(257,440)	(2,942,339)	(913,595)	(516,870)	(288,272)	(212,158)
Policy owners' equity:									
Beginning of year	8,903,153	3,874,285	1,114,526	257,440	2,942,339	913,595	516,870	288,272	212,158
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 Life Separate Account

## Notes to Financial Statements

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### 1. General Information

#### Organization

The State Farm Life and Accident Assurance Company Variable Life 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 life insurance product, which has unique combinations of features and fees that are charged against the policy 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 life policies is not chargeable with liabilities arising out of any other business the Company may conduct.

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

#### 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.

Effective May 1, 2019, BlackRock iShares Dynamic Allocation V.I. Fund was renamed to the BlackRock 60/40 Target Allocation ETF V.I. Fund.

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

### **Notes to Financial Statements, Continued**

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#### **2. Significant Accounting Policies**

##### **Valuation of Investments**

As of December 31, 2019, 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 underlying securities, in accordance with the selection made by the policy 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 Policy 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 were valued at \$20,455,191 and \$17,325,599 as of December 31, 2019 and 2018, respectively.

##### **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 policies on each valuation date based on each policy'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 policy owners' share of the value of each fund's investments and other assets, less liabilities, by the number of policy owner 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.

##### **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.

##### **Transfers between subaccounts including the fixed account**

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

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

### **Notes to Financial Statements, Continued**

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#### **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. Actual results reported 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 0.8% of the daily net asset value of the policy 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 policy issue, but is guaranteed not to exceed 0.9% of net assets. The death benefit guarantee covers the risk that the policy would remain in force if the required minimum premiums were satisfied, even if the policy cash surrender value were to drop below zero. This could result from a decline in the value of the subaccounts due to market performance.

At the beginning of each policy month, the Company makes a deduction from the cash value of the policy, which consists of the cost of insurance for the policy, any additional benefits provided by the rider, and a monthly expense charge for the policy month. A monthly expense charge of \$6 is deducted from policies issued prior to July 1, 2004 and an \$8 monthly expense charge is deducted from policies issued from July 1, 2004. This monthly expense charge is subject to a maximum of \$8. These deductions reimburse the Company for administrative expenses relating to the issuance and maintenance of the policy.

A surrender charge may be deducted from the cash value of the policy in the event of a surrender to reimburse the Company for expenses incurred in connection with issuing the policy. The full surrender charge will be increased monthly during the first two policy years, stay constant during the third through sixth year and is reduced each year after the sixth year until it reaches zero in the tenth policy year.

A withdrawal fee is assessed from the cash value of the policy upon the partial withdrawal of funds which is equal to the lesser of \$25 or 2% of the amount withdrawn.

The Company reserves the right to deduct a \$25 transfer processing fee from the cash value of the policy for each subaccount transfer in excess of 12 during a policy year. In addition, the Company deducts and retains a 5% charge from each premium before allocating the resulting premium to the unit value in the Separate Account.

The Separate Account only invests in Funds of an unrelated party.

# State Farm Life and Accident Assurance Company

## Variable Life Separate Account

### Notes to Financial Statements, Continued

#### 4. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 2019 and 2018 are as follows:

Subaccount	December 31, 2019			December 31, 2018		
	Units Issued	Units Redeemed	Net Increase (Decrease)	Units Issued	Units Redeemed	Net Increase (Decrease)
Large Cap Equity Index . . . . .	—	—	—	19,489	304,068	(284,579)
Small Cap Equity Index . . . . .	—	—	—	7,485	115,771	(108,286)
Bond . . . . .	—	—	—	7,160	63,424	(56,264)
Money Market . . . . .	—	—	—	87,406	108,321	(20,915)
International Equity Index . . . . .	—	—	—	15,806	159,766	(143,960)
Stock and Bond Balanced . . . . .	—	—	—	2,139	35,849	(33,710)
Large Cap Equity . . . . .	—	—	—	1,269	27,048	(25,779)
Small/Mid Cap Equity . . . . .	—	—	—	1,083	15,325	(14,242)
International Equity . . . . .	—	—	—	1,027	13,993	(12,966)
BlackRock Small Cap Index . . . . .	8,215	12,528	(4,313)	107,262	1,141	106,121
BlackRock International Index . . . . .	12,548	14,603	(2,055)	148,722	2,446	146,276
BlackRock 60/40 Target Allocation ETF* . . .	1,888	3,654	(1,766)	33,910	1,476	32,434
BlackRock S&P 500 Index . . . . .	18,124	32,675	(14,551)	280,922	4,733	276,189
BlackRock Government Money Market . . . .	8,343	16,359	(8,016)	102,723	3,558	99,165
BlackRock Total Return . . . . .	5,247	7,625	(2,378)	59,781	759	59,022

\* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.

#### 5. Purchases and Sales of Investments

The cost of purchases and proceeds from sales of investments for the year ended December 31, 2019 by each subaccount are shown below:

Subaccount	December 31, 2019	
	Purchases	Sales
BlackRock Small Cap Index . . . . .	\$ 375,344	\$ 329,632
BlackRock International Index . . . . .	211,117	176,426
BlackRock 60/40 Target Allocation ETF* . . . . .	51,360	83,786
BlackRock S&P 500 Index . . . . .	989,651	833,534
BlackRock Government Money Market . . . . .	79,359	165,604
BlackRock Total Return . . . . .	84,664	106,872
Total . . . . .	<u>\$1,791,495</u>	<u>\$1,695,854</u>

\* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.

# State Farm Life and Accident Assurance Company

## Variable Life Separate Account

### Notes to Financial Statements, Continued

#### 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, 2019 are shown below. In 2018, 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, 2019				For the Year Ended December 31, 2019		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
BlackRock Small Cap Index	101,808	\$ 3,990,377	\$31.51	\$39.19	1.32%	0.8%	24.37%
BlackRock International Index	144,221	\$ 3,043,058	\$17.49	\$21.10	3.42%	0.8%	20.64%
BlackRock 60/40 Target Allocation ETF***	30,668	\$ 966,121	\$26.16	\$31.50	2.05%	0.8%	20.41%
BlackRock S&P 500 Index	261,638	\$10,102,743	\$29.63	\$38.61	2.23%	0.8%	30.31%
BlackRock Government Money Market	91,149	\$ 1,143,532	\$12.40	\$12.54	1.90%	0.8%	1.13%
BlackRock Total Return	56,644	\$ 1,209,360	\$19.66	\$21.35	2.77%	0.8%	8.60%

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	—	\$ —	\$31.28	\$31.35	3.44%	0.8%	NA
Small Cap Equity Index	—	\$ —	\$35.79	\$34.63	0.00%	0.8%	NA
Bond	—	\$ —	\$19.81	\$19.37	2.06%	0.8%	NA
Money Market	—	\$ —	\$12.30	\$12.37	1.24%	0.8%	NA
International Equity Index	—	\$ —	\$20.43	\$18.10	0.16%	0.8%	NA
Stock and Bond Balanced	—	\$ —	\$27.09	\$26.87	2.82%	0.8%	NA
Large Cap Equity	—	\$ —	\$20.06	\$20.90	0.00%	0.8%	NA
Small/Mid Cap Equity	—	\$ —	\$20.25	\$20.61	0.00%	0.8%	NA
International Equity	—	\$ —	\$16.36	\$14.76	0.00%	0.8%	NA
BlackRock Small Cap Index	106,121	\$3,343,542	\$34.63	\$31.51	1.38%	0.8%	(9.01)%
BlackRock International Index	146,276	\$2,558,905	\$18.10	\$17.49	4.85%	0.8%	(3.37)%
BlackRock iShares® Dynamic Allocation	32,434	\$ 848,353	\$26.87	\$26.16	1.01%	0.8%	(2.64)%
BlackRock S&P 500 Index	276,189	\$8,184,871	\$31.35	\$29.63	1.08%	0.8%	(5.49)%
BlackRock Government Money Market	99,165	\$1,229,777	\$12.37	\$12.40	0.37%	0.8%	0.24%
BlackRock Total Return	59,022	\$1,160,151	\$19.37	\$19.66	0.52%	0.8%	1.50%

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	284,579	\$8,903,153	\$25.91	\$31.28	1.85%	0.8%	20.73%
Small Cap Equity Index	108,286	\$3,874,285	\$31.49	\$35.79	1.06%	0.8%	13.66%
Bond	56,264	\$1,114,526	\$19.54	\$19.81	2.55%	0.8%	1.38%
Money Market	20,915	\$ 257,440	\$12.32	\$12.30	0.58%	0.8%	(0.16)%
International Equity Index	143,960	\$2,942,339	\$16.42	\$20.43	2.92%	0.8%	24.42%
Stock and Bond Balanced	33,710	\$ 913,595	\$23.97	\$27.09	2.15%	0.8%	13.02%
Large Cap Equity	25,779	\$ 516,870	\$16.33	\$20.06	0.89%	0.8%	22.84%
Small/Mid Cap Equity	14,242	\$ 288,272	\$18.25	\$20.25	0.59%	0.8%	10.96%
International Equity	12,966	\$ 212,158	\$12.27	\$16.36	0.52%	0.8%	33.33%

# State Farm Life and Accident Assurance Company

## Variable Life Separate Account

### Notes to Financial Statements, Continued

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	299,348	\$7,759,653	\$23.38	\$25.91	2.04%	0.8%	10.82%
Small Cap Equity Index	116,914	\$3,682,763	\$26.24	\$31.49	1.17%	0.8%	20.01%
Bond	56,586	\$1,105,265	\$19.30	\$19.54	2.81%	0.8%	1.24%
Money Market	18,599	\$ 229,312	\$12.41	\$12.32	0.06%	0.8%	(0.73)%
International Equity Index	148,062	\$2,432,082	\$16.41	\$16.42	2.88%	0.8%	0.06%
Stock and Bond Balanced	34,135	\$ 818,039	\$22.39	\$23.97	2.26%	0.8%	7.06%
Large Cap Equity	26,963	\$ 440,245	\$15.26	\$16.33	0.85%	0.8%	7.01%
Small/Mid Cap Equity	14,451	\$ 263,779	\$16.28	\$18.25	0.34%	0.8%	12.10%
International Equity	13,084	\$ 160,644	\$13.04	\$12.27	0.63%	0.8%	(5.90)%

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	313,036	\$7,319,560	\$23.30	\$23.38	1.75%	0.8%	0.34%
Small Cap Equity Index	122,211	\$3,208,583	\$27.81	\$26.24	0.90%	0.8%	(5.65)%
Bond	57,238	\$1,104,234	\$19.26	\$19.30	2.79%	0.8%	0.21%
Money Market	18,675	\$ 231,831	\$12.51	\$12.41	0.00%	0.8%	(0.80)%
International Equity Index	147,463	\$2,419,967	\$16.73	\$16.41	2.37%	0.8%	(1.91)%
Stock and Bond Balanced	36,642	\$ 820,349	\$22.32	\$22.39	2.30%	0.8%	0.31%
Large Cap Equity	37,587	\$ 573,501	\$15.18	\$15.26	1.07%	0.8%	0.53%
Small/Mid Cap Equity	20,027	\$ 326,061	\$17.09	\$16.28	0.66%	0.8%	(4.74)%
International Equity	13,104	\$ 171,035	\$13.17	\$13.04	0.69%	0.8%	(0.99)%

\* 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 policy 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 policy 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.

\*\*\*\* BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.