

STATEMENT OF ADDITIONAL INFORMATION

DATED May 1, 2021

STATE FARM VARIABLE DEFERRED ANNUITY POLICY

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

Bloomington, Illinois 61702-2307

This Statement of Additional Information expands upon subjects discussed in the current prospectus for the variable deferred annuity policy (the "Policy") offered by State Farm Life and Accident Assurance Company ("State Farm," "we," "us," or "our"). You may obtain a copy of the prospectus dated May 1, 2021 by calling 1-888-702-2307 (Toll free) or by writing to us at the above address. Capitalized terms in this Statement of Additional Information have the same meanings as in the prospectus for the Policy.

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

Printed in U.S.A.

STATEMENT OF ADDITIONAL INFORMATION

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ADDITIONAL POLICY PROVISIONS

The Policy

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

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

Ownership

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

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

Incontestability

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

Error in Age or Sex

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

Participation

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

Assignment

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

NET INVESTMENT FACTOR

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

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

ANNUITY PAYMENT PROVISIONS

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

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

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

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

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

Annuity Unit Value. The Annuity Unit Values for each Subaccount were arbitrarily set initially at \$10 when that Subaccount began operation. Thereafter, the Annuity Unit Value for every Valuation Period is the Annuity Unit Value at the end of the previous Valuation Day times the Net Investment Factor times the Annuity Interest Factor. The Annuity Interest Factor is used to neutralize the Assumed Investment Rate of 3½% a year used to determine the guaranteed minimum payment factors. The Assumed Investment Rate is significant in determining the amount of each variable annuity income payment and the amount by which each variable annuity income payment varies from one payment to the next.

ILLUSTRATION OF CALCULATION OF ANNUITY UNIT VALUE

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

ILLUSTRATION OF VARIABLE ANNUITY PAYMENTS

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

PAYMENT OF PROCEEDS UPON DEATH OF OWNER OR ANNUITANT

Death of Owner

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

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

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

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

Other rules apply to Qualified Policies.

Death of Annuitant

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

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

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

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

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

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

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

ADDITION, DELETION OR SUBSTITUTION OF INVESTMENTS

Where permitted by applicable law, we may:

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

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

SAFEKEEPING OF ACCOUNT ASSETS

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

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

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

DISTRIBUTION OF THE POLICIES

State Farm VP Management Corp., One State Farm Plaza, Bloomington, Illinois 61710, acts as the principal underwriter of the Policies. State Farm VP Management Corp. is affiliated with State Farm Life and Accident Assurance Company because each company is directly or indirectly owned by State Farm Mutual Automobile Insurance Company. State Farm VP Management Corp. received \$9,042 in 2020, \$9,589 in 2019, and \$1,533 in 2018 as commissions for serving as principal underwriter of the Policies. State Farm VP Management Corp. did not retain any commissions in 2020, 2019 and 2018.

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

EXPERTS

The statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2020 and 2019, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2020, 2019 and 2018, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

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

The statements of assets and contract owners' equity of the State Farm Life and Accident Assurance Company Variable Annuity Separate Account at December 31, 2020 and the statement of operations for the year then ended, and the changes in its contract owners' equity for each of the two years in the period ended December 31, 2020, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

OTHER INFORMATION

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

FINANCIAL STATEMENTS

The audited statutory statements of admitted assets, liabilities, and capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2020 and 2019, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years ended December 31, 2020, 2019 and 2018, as well as the Report of the Independent Registered Public Accounting Firm, appears in the SAI. Our financial statements should be considered only as bearing on our ability to meet our obligations under the Policies. **They should not be considered as bearing on the investment performance of the assets held in the Variable Account.**

Statements of assets and contract owners' equity of the State Farm Life and Accident Assurance Company Variable Annuity Separate Account at December 31, 2020, and the results of its operations for the year then ended, and the changes in its contract owners' equity for each of the two years in the period ended December 31, 2020, also appear in the SAI.

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

State Farm Life and Accident Assurance Company

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

Report on Audits of Financial Statements—Statutory Basis

For the Years Ended December 31, 2020, 2019, and 2018

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

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Report of Independent Auditors

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

We have audited the accompanying statutory financial statements of State Farm Life and Accident Assurance Company (the "Company"), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2020 and 2019, and the related statutory statements of income and changes in surplus, and of cash flows for each of the three years in the period ended December 31, 2020.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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



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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2020.

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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 2.

PriceWaterhouseCoopers LLP

February 25, 2021

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, 2020 and 2019

	2020	2019
ADMITTED ASSETS		
Bonds:		
United States government	\$ 134,880	\$ 145,723
Canadian government and subdivisions	2,495	2,495
Other governmental units	807,994	875,487
Industrial and other	1,913,006	1,804,563
	<u>2,858,375</u>	<u>2,828,268</u>
Common stocks	146,536	65,464
Contract loans	172,360	173,784
Cash (overdraft)	(4,802)	(1,657)
Cash equivalents	70,023	14,206
Accounts receivable—investment sales	—	33
	<u>384,117</u>	<u>251,830</u>
Total cash and invested assets	<u>3,242,492</u>	<u>3,080,098</u>
Net deferred tax asset	15,258	15,041
Premiums deferred and uncollected	1,306	1,388
Investment income due and accrued	25,524	26,248
Other assets	1,426	1,427
Assets held in separate accounts	63,636	59,263
Total admitted assets	<u>\$3,349,642</u>	<u>\$3,183,465</u>
LIABILITIES		
Aggregate reserves for life contracts	\$2,272,801	\$2,164,306
Liability for deposit type contracts	270,597	267,940
Policy and contract claims	16,737	7,974
Policyholders' dividends due and unpaid	118	102
Dividends to policyholders payable in the following year	19,841	19,246
Advance premiums, deposits and other policy and contract liabilities	1,325	1,267
Interest maintenance reserve (IMR)	2,918	1,975
Commissions payable	803	873
Federal income taxes payable to affiliates	7,874	4,288
Postretirement benefits	15,233	15,074
Agent termination benefits	36,825	31,475
Payable to parent, subsidiaries and affiliates	4,755	3,790
Other liabilities	14,036	12,309
Liabilities related to separate accounts	63,636	59,263
Asset valuation reserve (AVR)	37,880	18,748
Total liabilities	<u>2,765,379</u>	<u>2,608,630</u>
CAPITAL AND SURPLUS		
Common stock, \$100 par value; 10,000 shares authorized, issued and outstanding	1,000	1,000
Paid-in surplus	2,000	2,000
Unassigned surplus	581,263	571,835
Total capital and surplus	<u>584,263</u>	<u>574,835</u>
Total liabilities, capital and surplus	<u>\$3,349,642</u>	<u>\$3,183,465</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, 2020, 2019, and 2018

SUMMARY OF OPERATIONS	2020	2019	2018
Income:			
Premiums and annuity considerations	\$255,118	\$256,737	\$245,330
Net investment income	107,410	107,481	105,867
Other income	2,048	1,339	1,932
	<u>364,576</u>	<u>365,557</u>	<u>353,129</u>
Benefits and other expenses:			
Death benefits	85,788	62,616	64,125
Surrender benefits and other fund withdrawals	48,967	57,817	60,409
Other benefits and claims	25,856	25,099	24,008
Net transfers to or (from) separate accounts	(3,265)	(2,321)	(3,384)
Increase in policy and contract reserves	108,495	90,271	91,556
Commissions	16,262	16,307	15,715
General insurance expenses	36,384	33,834	33,788
Taxes, licenses and fees	5,120	4,260	6,527
	<u>323,607</u>	<u>287,883</u>	<u>292,744</u>
Net gain from operations before dividends to policyholders and federal and foreign income taxes	40,969	77,674	60,386
Dividends to policyholders	19,572	19,058	18,429
Net gain from operations before federal and foreign income taxes	21,397	58,616	41,957
Federal and foreign income taxes incurred (excluding capital gains)	6,809	15,219	12,255
Net gain from operations before net realized capital gains or (losses)	14,588	43,397	29,702
Net realized capital gains (losses), net of transfers to the IMR less capital gains tax	(3,212)	(1,603)	(201)
Net income (loss)	<u>\$ 11,376</u>	<u>\$ 41,794</u>	<u>\$ 29,501</u>
CAPITAL AND SURPLUS ACCOUNT	2020	2019	2018
Common stock: Balance at beginning and end of year	\$ 1,000	\$ 1,000	\$ 1,000
Paid-in Surplus: Balance at beginning and end of year	2,000	2,000	2,000
Unassigned surplus:			
Balance at beginning of year	571,835	537,195	500,185
Net income	11,376	41,794	29,501
Change in net deferred income tax	4,548	4,962	2,997
Change in net unrealized capital gains (losses) less capital gains tax	17,002	3,931	(131)
Change in nonadmitted assets	(1,386)	(3,521)	616
Change in asset valuation reserve	(19,132)	(7,211)	(838)
Additional liability for termination benefits	(2,980)	(5,315)	4,865
Balance at end of year	<u>581,263</u>	<u>571,835</u>	<u>537,195</u>
Total capital and surplus	<u>\$584,263</u>	<u>\$574,835</u>	<u>\$540,195</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, 2020, 2019, and 2018

CASH FLOW	2020	2019	2018
Cash from operations:			
Premiums collected net of reinsurance	\$ 241,555	\$ 244,087	\$ 231,492
Net investment income	102,312	101,726	99,935
Miscellaneous income	617	623	617
Benefits and loss related items	(119,089)	(116,919)	(116,429)
Net transfers from Separate Accounts	3,354	2,213	3,355
Commissions, expenses paid and other deductions	(54,342)	(51,787)	(53,182)
Dividends paid to policyholders	(1,897)	(1,884)	(1,799)
Federal and foreign income taxes paid	(4,274)	(19,442)	(16,428)
Net cash from operations	<u>168,236</u>	<u>158,617</u>	<u>147,561</u>
Cash from investments:			
Proceeds from investments sold, matured or repaid:			
Bonds	326,751	230,729	181,082
Stocks	4,957	1,283	—
Other	33	—	42
Total investment proceeds	<u>331,741</u>	<u>232,012</u>	<u>181,124</u>
Cost of investments acquired (long term only):			
Bonds	357,435	334,054	302,349
Stocks	64,895	61,256	—
Miscellaneous applications	—	31	—
Total investments acquired	<u>422,330</u>	<u>395,341</u>	<u>302,349</u>
Net increase (decrease) in contract loans and premium notes	(7,316)	(3,984)	(2,495)
Net cash from investments	<u>(83,273)</u>	<u>(159,345)</u>	<u>(118,730)</u>
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities	(34,075)	(30,690)	(29,668)
Other cash provided (applied)	1,784	(969)	(591)
Net cash from financing and miscellaneous sources	<u>(32,291)</u>	<u>(31,659)</u>	<u>(30,259)</u>
Net change in cash, cash equivalents, and short-term investments	52,672	(32,387)	(1,428)
Cash, cash equivalents, and short-term investments, beginning of year	<u>12,549</u>	<u>44,936</u>	<u>46,364</u>
Cash, cash equivalents, and short-term investments, end of year	<u>65,221</u>	<u>12,549</u>	<u>44,936</u>
Supplemental disclosures of cash flow information for non-cash transactions:			
Deposit type contracts and interest credited	\$ 29,860	\$ 28,674	\$ 28,799
Bond exchanges	28,520	18,660	26,445
Dividends held or used to pay premiums	17,063	16,763	16,427
Capitalized loan interest	6,707	6,468	6,518
Waived premiums	3,028	2,767	2,667
Common stock exchanges	812	235	50
Premium temporarily applied by the Company	632		

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

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

Notes to Financial Statements—Statutory Basis (in thousands)

1. Nature of Business Operations

State Farm Life and Accident Assurance Company (the Company), domiciled in Illinois, is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (SFMAIC). The Company is licensed in four states and primarily markets individual life and annuity products through an exclusive independent contractor agency force and by phone and internet. The Company's individual life insurance products include traditional whole life, universal life, term insurance and variable universal life contracts, which together account for approximately 96% of premium revenue in 2020 and 92% in 2019 and 2018. Individual annuity products including variable annuity contracts account for an additional 4% in 2020 and 8% in 2019 and 2018. 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 2020, 2019, and 2018, 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. Management has evaluated subsequent events for recognition or disclosure through February 25, 2021, 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 for using the retrospective adjustment method. There have been no changes from the retrospective

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)

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 2020 or 2019. 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 are based on statutory requirements and are computed using formulaic or principle-based methods. Policy reserves are at least as large as those computed using minimum statutory requirements. Each year the Appointed Actuary performs asset adequacy analysis to determine whether the Company's reserves, when considered in light of Company assets, make adequate provision for the anticipated cash flows required by the contractual obligations and related expenses of the Company. 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)

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, 2020, 2019, and 2018, respectively, premiums under individual and group life participating policies were \$245,658, \$236,703, and \$226,843 or 100% of total individual and group life premiums earned. The Company's Statements of Operations for 2020, 2019, and 2018 includes \$19,572, \$19,058, and \$18,429 of policyholder dividends, respectively.

The Company absolutely and irrevocably commits and guarantees that, of the total dividends apportioned for the period beginning January 1, 2021 and ending December 31, 2021, it will pay or cause to be applied during 2021, in all events, annual dividends for participating individual life and annuity policies issued after December 31, 1983, in an amount not less than \$9 million. 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.	Green Bay Merger Corp.

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 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.

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

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

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, including any valuation allowance, is reflected as a separate component of capital and surplus under NAIC SAP. Under GAAP, the change in DTA/DTL, including any valuation allowance, is generally reported as a component of net income. The movement in any non-admitted DTA is reported with the change in non-admitted assets, a separate component of capital and surplus.

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.

For any uncertain tax positions, 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, as modified for income taxes. 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 appropriate. Additionally, under 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 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.

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.

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)

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 \$32,189 and \$30,803 at December 31, 2020 and 2019, 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 both December 31, 2020 and 2019, liabilities of \$231 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 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	\$920
Decreases current year:	
Premium tax offset applied to 2020 annual tax return	2
Increases current year:	
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	\$918

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

3. Changes in Accounting Principles

In 2016, the NAIC adopted a principle-based reserving method for life insurance products allowing for a three-year phase in period, a period the Company chose to utilize. This newly prescribed method of determining reserves considers additional risks associated with life insurance products that may not have been reflected in the prior formula-based reserving methodology. Due to the utilization of the three-year phase in period, principle-based reserving for life insurance only impacts Company business issued in 2020 and later.

In 2019, the NAIC adopted a new framework for computing reserves for variable annuity contracts, which is applicable to business retrospectively. The Company elected to continue to utilize the Alternative Methodology previously allowed by Guideline XLIII and now defined in VM-21 to calculate the aggregate reserve for its variable annuity contracts. The revisions to the requirements for computing policy reserves constitute a change in valuation basis due to the change in the reserving method as outlined in SSAP No. 51R. These revisions had no impact to the level of policy reserves held by the Company.

4. 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, 2020			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. governments	\$ 134,880	\$ 10,841	\$ (4)	\$ 145,717
All other governments	3,713	314	—	4,027
States, territories and possessions (direct and guaranteed)	22,310	2,590	—	24,900
Political subdivisions of states, territories and possessions (direct and guaranteed)	110,162	9,284	—	119,446
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	674,304	60,075	(191)	734,188
Industrial and miscellaneous (unaffiliated)	1,913,006	162,249	(1,248)	2,074,007
Totals	<u>\$2,858,375</u>	<u>\$245,353</u>	<u>\$(1,443)</u>	<u>\$3,102,285</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, 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>

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, 2020	
	Statement Value	Fair Value
Due in one year or less	\$ 205,019	\$ 209,874
Due after one year through five years	1,072,527	1,152,221
Due after five years through ten years	1,342,277	1,482,577
Due after ten years	238,552	257,613
Totals	<u>\$2,858,375</u>	<u>\$3,102,285</u>

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

	2020	2019	2018
Proceeds	\$60,016	\$35,192	\$15,462
Gross gains	2,564	1,120	546
Gross losses	(2,335)	(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>2020</u>	<u>2019</u>
Bonds on deposit with regulatory authorities	\$1,792	\$1,813
Total	<u>\$1,792</u>	<u>\$1,813</u>

C. Equity Investments

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

<u>December 31, 2020</u>			
<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
\$120,222	\$28,925	\$(2,611)	\$146,536
<u>December 31, 2019</u>			
<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
\$ 60,659	\$ 5,541	\$ (736)	\$ 65,464

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

	<u>2020</u>		<u>2019</u>		<u>2018</u>	
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Unaffiliated common	\$207	\$(582)	\$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.

The Company had realized capital losses due to other-than-temporary declines in the fair value as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Bonds	\$2,335	\$1,392	\$ 15
Common Stocks	485	—	—
Total	<u>\$2,820</u>	<u>\$1,392</u>	<u>\$ 15</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 due to temporary declines in the fair value of investments at December 31 were as follows:

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. governments	\$ 996	\$ (4)	\$—	\$—	\$ 996	\$ (4)
All other governments	—	—	—	—	—	—
States, territories and possessions (direct and guaranteed)	—	—	—	—	—	—
Political subdivisions of states, territories and possessions (direct and guaranteed)	—	—	—	—	—	—
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	16,141	(191)	—	—	16,141	(191)
Industrial and miscellaneous (unaffiliated)	61,285	(1,248)	—	—	61,285	(1,248)
Subtotal, debt securities	78,422	(1,443)	—	—	78,422	(1,443)
Unaffiliated stock	17,638	(2,611)	—	—	17,638	(2,611)
Total temporarily impaired securities	<u>\$96,060</u>	<u>\$(4,054)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$96,060</u>	<u>\$(4,054)</u>

	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>

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, 2020.

E. Realized Capital Gains (Losses)

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

	December 31, 2020		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	\$ (93)	\$1,052	\$(1,145)
Less: IMR capital gains (losses)	2,617	550	2,067
Capital gains (losses) net of IMR	\$(2,710)	\$ 502	\$(3,212)

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

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

F. Net Investment Income

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

	2020	2019	2018
Bonds	\$ 95,641	\$ 95,992	\$ 95,383
Common Stocks	1,767	538	—
Cash, cash equivalents and short-term investments	141	932	576
Contract loans and liens	10,923	10,883	10,700
Gross investment income	108,472	108,345	106,659
Investment expenses	(1,062)	(864)	(792)
Net investment income	<u>\$107,410</u>	<u>\$107,481</u>	<u>\$105,867</u>

State Farm Life and Accident Assurance Company
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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:

<u>Description</u>	Fair Value Measurements at December 31, 2020				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value (NAV)</u>	
Cash equivalents	\$ 5,275	\$—	\$—	\$—	\$ 5,275
Stocks:					
Domestic common	140,957	—	—	—	140,957
Foreign common	4,796	—	—	—	4,796
Mutual funds	783	—	—	—	783
Separate Accounts	63,636	—	—	—	63,636
Total	<u>\$215,447</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$215,447</u>

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

Description	Fair Value Measurements at December 31, 2019				Total
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	
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>

The Company recognizes transfers between levels at the end of the reporting period. There were no transfers into or out of Level 3 for 2020 and 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.

5. Separate Accounts

As of December 31, 2020 and 2019, the Company's separate accounts statement included legally insulated assets of \$63,636 and \$59,263, respectively. The assets legally insulated from the general account as of December 31, 2020 and 2019 are attributed to the following products:

December 31, 2020

Product/Transaction	Legally Insulated Assets	Separate Accounts Assets (Not Legally Insulated)
Variable Universal Life	\$21,606	\$—
Variable Annuities	42,030	—
Total	<u>\$63,636</u>	<u>\$—</u>

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

December 31, 2019

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

Certain guarantees are provided by the general account. For the years ended December 31, 2020, 2019, 2018, 2017 and 2016, the general account had paid \$1, \$0, \$5, \$0 and \$0, respectively 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, 2020, 2019, and 2018 is as follows:

	2020				
	(1) <u>Indexed</u>	(2) <u>Nonindexed Guarantee Less Than Equal to 4%</u>	(3) <u>Nonindexed Guarantee More than 4%</u>	(4) <u>Nonguaranteed Separate Accounts</u>	(5) <u>Total</u>
Premiums, considerations or deposits for year ended December 31	\$—	\$—	\$—	\$ 1,603	\$ 1,603
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	63,563	63,563
Amortized cost	—	—	—	—	—
Total reserves	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$63,563</u>	<u>\$63,563</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	—	—	—	63,563	63,563
At book value without market value adjustment and with current surrender charge of less than 5%	—	—	—	—	—
Subtotal	—	—	—	63,563	63,563
Not subject to discretionary withdrawal ..	—	—	—	—	—
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$63,563</u>	<u>\$63,563</u>

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

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

	<u>2020</u>
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	\$ 1,715
Transfers from separate accounts	(4,980)
Net transfers to (from) separate accounts	<u>\$(3,265)</u>
Transfers as reported in the Statements of Operations	<u>\$(3,265)</u>

	<u>2019</u>				
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
	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	\$—	\$—	\$—	\$ 1,761	\$ 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	—	—	—	59,101	59,101
Not subject to discretionary withdrawal	—	—	—	—	—
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$59,101</u>	<u>\$59,101</u>

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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	<u>\$(2,321)</u>
Transfers as reported in the Statements of Operations	<u>\$(2,321)</u>

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

6. Fair Value of Financial Instruments

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

Bonds (including short-term)

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

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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:

	2020					Net Asset Value (NAV)	Not Practicable (carrying value)
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)		
Financial assets:							
Bonds:							
Loan-backed	\$ 773,255	\$ 709,232		\$ 773,255			
Other bonds	2,329,031	2,149,143		2,329,031			
Unaffiliated stocks	146,536	146,536	146,536				
Cash	(4,802)	(4,802)	(4,802)				
Cash equivalents	70,023	70,023	5,275	64,748			
Contract loans	—	172,360					172,360
Separate accounts	63,636	63,636	63,636				
Financial liabilities:							
Deferred annuity							
reserves	\$ 283,295	\$ 284,786		\$ 283,295			
Settlement options							
without life							
contingencies	141,581	141,581		141,581			
Separate accounts	63,636	63,636	63,636				

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

	2019					Net Asset Value (NAV)	Not Practicable (carrying value)
	Fair Value	Statement Value	(Level 1)	(Level 2)	(Level 3)		
Financial assets:							
Bonds:							
Loan-backed	\$ 753,186	\$ 728,568		\$ 753,186			
Other bonds	2,186,791	2,099,700		2,186,791			
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			
Contract loans	—	173,784					173,784
Separate accounts	59,263	59,263	59,263				
Financial liabilities:							
Deferred annuity reserves							
reserves	\$ 284,281	\$ 286,111		\$ 284,281			
Settlement options without life contingencies							
contingencies	140,546	140,546		140,546			
Separate accounts	59,263	59,263	59,263				

Not practicable to estimate fair value:

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Contract loans	\$172,360	Various	Not applicable	See above

7. Life Reserves

A. Life Contracts and Deposit-Type Contracts

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

Premium-paying Policies

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

Paid-up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are those based on the same substandard table. As of December 31, 2020 and 2019, the Company had \$2,925,215 and \$3,530,480, 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

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above insurance totaled the gross amount of \$14,868 and \$18,235 at December 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

	2020				Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	
Individual Annuities					
Subject to discretionary withdrawal:					
With market value adjustment	\$180,158	\$—	\$ —	\$180,158	44.3%
At book value less current surrender charge of 5% or more	—	—	—	—	0.0%
At fair value	—	—	41,958	41,958	10.3%
Subtotal	<u>\$180,158</u>	<u>\$—</u>	<u>\$41,958</u>	<u>\$222,116</u>	<u>54.6%</u>
At book value without adjustment (minimal or no charge or adjustment)	151,793	—	—	151,793	37.3%
Not subject to discretionary withdrawal	<u>33,002</u>	<u>—</u>	<u>—</u>	<u>33,002</u>	<u>8.1%</u>
Total (gross)	<u>\$364,953</u>	<u>\$—</u>	<u>\$41,958</u>	<u>\$406,911</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$364,953</u>	<u>\$—</u>	<u>\$41,958</u>	<u>\$406,911</u>	

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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. \$0

Deposit-Type Contracts	2020				
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	Percentage of Total
Subject to discretionary withdrawal:					
With market value adjustment	\$ 5,476	\$ —	\$—	\$ 5,476	2.0%
At book value less current surrender charge of 5% or more	—	—	—	—	0.0%
At fair value	—	—	—	—	0.0%
Subtotal	<u>\$ 5,476</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$ 5,476</u>	<u>2.0%</u>
At book value without adjustment (minimal or no charge or adjustment)	265,121	—	—	265,121	98.0%
Not subject to discretionary withdrawal	—	—	—	—	0.0%
Total (gross)	<u>\$270,597</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$270,597</u>	<u>100.0%</u>
Reinsurance ceded	—	—	—	—	
Total (net)*	<u>\$270,597</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$270,597</u>	
As reported in the Life, and Accident and Health Annual Statement:					
Annuities total (net)		\$362,447			
Supplementary contracts with life contingencies total (net)		2,506			
Deposit-type contracts		<u>270,597</u>			
Subtotal		<u>\$635,550</u>			
As reported in the Separate Accounts Annual Statement:					
Annuities total (net)		41,958			
Supplementary contracts, total		—			
Policyholder dividend and coupon accumulations		—			
Policyholder premiums		—			
Guaranteed interest contracts		—			
Other contract deposit funds		—			
Subtotal		<u>\$ 41,958</u>			
Total annuity actuarial reserves and deposit-type contract liabilities . . .		<u>\$677,508</u>			

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities excludes Annuity Disability Reserves of \$17.

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

<u>Individual Annuities</u>	2019				<u>Percentage of Total</u>
	<u>General Account</u>	<u>Separate Account with Guarantees</u>	<u>Separate Account Nonguaranteed</u>	<u>Total</u>	
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>	

* 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: \$0

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

	2019				Percentage of Total
	General Account	Separate Account with Guarantees	Separate Account Nonguaranteed	Total	
Deposit-Type Contracts					
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.

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

C. Life Actuarial Reserves by Withdrawal Characteristics

	2020					
	General Account			Separate Account—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	\$ —	\$ 31,819	\$ 82,268	\$ —	\$ —	\$ —
Universal Life	393,102	379,535	382,573	—	—	—
Other Permanent Cash Value Life Insurance	—	908,316	1,010,149	—	—	—
Variable Life	—	—	—	—	—	—
Variable Universal Life	3,758	3,718	3,834	21,605	21,605	21,605
Not subject to discretionary withdrawal or no cash values:						
Term Policies without Cash Value	XXX	XXX	341,474	XXX	XXX	—
Accidental Death Benefits	XXX	XXX	245	XXX	XXX	—
Disability—Active Lives	XXX	XXX	29,661	XXX	XXX	—
Disability—Disabled Lives	XXX	XXX	42,931	XXX	XXX	—
Miscellaneous Reserves	XXX	XXX	14,696	XXX	XXX	—
Total (gross: direct + assumed)	\$396,860	\$1,323,388	\$1,907,831	\$21,605	\$21,605	\$21,605
Reinsurance Ceded	—	—	—	—	—	—
Total (net)	\$396,860	\$1,323,388	\$1,907,831	\$21,605	\$21,605	\$21,605

	Amount
Life & Accident & Health Annual Statement:	
Life Insurance Section, Total (net)	\$1,820,298
Accidental Death Benefits Section, Total (net)	245
Disability—Active Lives Section, Total (net)	29,661
Disability—Disabled Lives Section, Total (net)	42,931
Miscellaneous Reserves Section, Total (net)	14,696
Subtotal	\$1,907,831
Separate Accounts Annual Statement:	
Life insurance, Total	\$ 21,605
Accident and health contracts, Total	—
Miscellaneous reserves, Total	—
Subtotal	\$ 21,605
Combined Total	\$1,929,436

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

	2019					
	General Account			Separate Account—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)	\$382,726	\$1,254,621	\$1,795,131	\$20,453	\$20,453	\$20,453

	Amount
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	\$1,795,131
Separate Accounts Annual Statement:	
Life insurance, Total	\$ 20,453
Accident and health contracts, Total	—
Miscellaneous reserves, Total	—
Subtotal	\$ 20,453
Combined Total	\$1,815,584

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)

D. Premium and Annuity Considerations Deferred and Uncollected

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

Type	December 31, 2020		December 31, 2019	
	Gross	Net of Loading	Gross	Net of Loading
Industrial	\$ —	\$ —	\$ —	\$ —
Ordinary new business	87	7	91	33
Ordinary renewal	1,476	1,224	1,396	1,164
Credit life	—	—	—	—
Group life	4	4	3	3
Group annuity	—	—	—	—
Total	<u>\$1,567</u>	<u>\$1,235</u>	<u>\$1,490</u>	<u>\$1,200</u>

8. Federal Income Taxes

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

	December 31, 2020			December 31, 2019		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	\$55,636	\$ 217	\$55,853	\$52,535	\$ 116	\$52,651
Statutory valuation allowance adjustment	—	—	—	—	—	—
Adjusted gross DTAs	55,636	217	55,853	52,535	116	52,651
Nonadmitted DTAs	29,978	—	29,978	30,167	—	30,167
Net admitted DTAs	25,658	217	25,875	22,368	116	22,484
DTLs	5,090	5,527	10,617	6,436	1,007	7,443
Net admitted adjusted DTAs (DTLs)	<u>\$20,568</u>	<u>\$(5,310)</u>	<u>\$15,258</u>	<u>\$15,932</u>	<u>\$ (891)</u>	<u>\$15,041</u>

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

	December 31, 2020			December 31, 2019		
	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	15,258	—	15,258	15,041	—	15,041
Lesser of:						
Adjusted gross DTAs expected to be realized following the balance sheet date; or	15,258	—	15,258	15,041	—	15,041
Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	86,225	N/A	N/A	84,524
Adjusted gross DTAs offset by gross DTLs	10,400	217	10,617	7,328	116	7,444
Total admitted adjusted gross DTAs	<u>\$25,658</u>	<u>\$217</u>	<u>\$25,875</u>	<u>\$22,369</u>	<u>\$116</u>	<u>\$22,485</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>2020</u>	<u>2019</u>
Ratio percentage used to determine recovery period and threshold limitation amount	1,359.26%	1,515.78%
Total adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 616,806	\$ 588,166

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>2020</u>	<u>2019</u>	<u>2018</u>
Current income tax expense (benefit)	\$6,797	\$15,281	\$12,440
Adjustment to prior year taxes	12	(62)	(185)
Combined income taxes incurred	\$6,809	\$15,219	\$12,255
Tax (benefit) on capital gains (losses)	1,052	517	347
Current income taxes incurred	<u>\$7,861</u>	<u>\$15,736</u>	<u>\$12,602</u>

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

	<u>2020</u>	<u>2019</u>	<u>Change</u>
DTAs:			
Ordinary:			
Policyholder reserves	\$21,893	\$21,772	\$ 121
Deferred acquisition costs	18,662	17,141	1,521
Policyholder dividends accrual	2,277	2,152	125
Compensation and benefits accrual	9,344	8,714	630
Liability for termination benefits	2,893	2,267	626
Other	567	489	78
Total ordinary DTAs	55,636	52,535	3,101
Statutory valuation allowance adjustment	—	—	—
Nonadmitted DTAs	29,978	30,167	(189)
Admitted ordinary DTAs	<u>\$25,658</u>	<u>\$22,368</u>	<u>\$3,290</u>
Capital:			
Investments	\$ 217	\$ 116	\$ 101
Total capital DTAs	217	116	101
Statutory valuation allowance adjustment	—	—	—
Admitted capital DTAs	<u>\$ 217</u>	<u>\$ 116</u>	<u>\$ 101</u>
Admitted DTAs	<u>\$25,875</u>	<u>\$22,484</u>	<u>\$3,391</u>

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

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

	<u>2020</u>	<u>2019</u>	<u>Change</u>
DTLs:			
Ordinary:			
Deferred and uncollected premium	\$ 164	\$ 177	\$ (13)
Surplus adjustment for lapsed policies	119	144	(25)
Basis of bonds	139	612	(473)
Guaranty funds receivable	241	242	(1)
Reserves transition rule	4,343	5,212	(869)
Accrued dividends on stocks	24	14	10
Premium adjustment for lapsed policies	60	25	35
Other	—	10	(10)
Total ordinary DTLs	<u>\$ 5,090</u>	<u>\$ 6,436</u>	<u>\$(1,346)</u>
Capital:			
Investments	\$ 5,527	\$ 1,007	\$ 4,520
Total capital DTLs	<u>\$ 5,527</u>	<u>\$ 1,007</u>	<u>\$ 4,520</u>
DTLs	<u>\$10,617</u>	<u>\$ 7,443</u>	<u>\$ 3,174</u>
Net admitted DTAs/DTLs	<u>\$15,258</u>	<u>\$15,041</u>	<u>\$ 217</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>2020</u>	<u>2019</u>	<u>Change</u>
Total DTAs	\$55,853	\$52,651	\$3,202
Total DTLs	<u>10,617</u>	<u>7,443</u>	<u>3,174</u>
Net DTAs	\$45,236	\$45,208	\$ 28
Tax effect of net unrealized (gains) losses			<u>4,520</u>
Change in net deferred income tax			<u>\$4,548</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 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:

	2020		
	Amount	Tax Effect at 21%	Effective Tax Rate
Income after capital gains tax	\$20,252		
Capital gain (loss) tax	1,052		
Income before taxes	\$21,304	\$ 4,474	21.00%
Dividends received deduction	(581)	(122)	-0.57%
Change in non-admitted assets	(656)	(138)	-0.65%
Foreign taxes	(113)	(24)	-0.11%
Change in liability for termination benefits	(2,980)	(626)	-2.94%
Prior year adjustment	83	17	0.08%
Dividends received deduction—Separate Accounts	(239)	(50)	-0.23%
Interest maintenance reserve amortization	(1,125)	(236)	-1.11%
Other adjustments	83	18	0.08%
Total	<u>\$15,776</u>	<u>\$ 3,313</u>	<u>15.55%</u>
Federal income tax incurred		\$ 6,809	31.96%
Capital gain (loss) taxes incurred		1,052	4.94%
Change in net deferred income tax		(4,548)	-21.35%
Total statutory income taxes		<u>\$ 3,313</u>	<u>15.55%</u>

	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 non-admitted 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 amortization	(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>

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

	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 non-admitted 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	(460)	(96)	-0.23%
Current year permanent differences	107	22	0.05%
Tax reform rate change effect	(353)	(74)	-0.17%
Interest maintenance reserve amortization	(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>

At December 31, 2020, 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:

2020	\$1,052
2019	\$ 517
2018	\$ 347

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

The Company files a federal consolidated income tax return with its affiliates. The Company reported no federal income recoverable from affiliates and \$7,874 and \$4,288 as a federal income tax payable to affiliates at December 31, 2020 and December 31, 2019, respectively.

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 IRS exam team has started an exam for tax years 2016 through 2018, but no issues have been identified.

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)

9. Benefit Plans

A. Pension Plans

The Company participates in a qualified defined benefit pension plan sponsored by SFMAIC covering substantially all employees whose most recent hire date is prior to January 1, 2021. The Company has no direct legal obligation for benefits under this plan. SFMAIC allocates amounts to the Company based on intercompany cost allocation agreements. The Company's share of net expense for this qualified defined benefit pension plan for the years ended December 31, 2020, 2019, and 2018 was \$133, \$736, and \$887, respectively.

The Company also participates in a non-qualified defined benefit plan sponsored by SFMAIC covering select eligible highly compensated employees whose most recent hire date is prior to January 1, 2021. 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 allocation agreements. The Company's share of net expense for this non-qualified plan for the years ended December 31, 2020, 2019, and 2018 was \$278, \$250, 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 allocation agreements. The Company's share of the post-career net periodic benefit cost for the years ended December 31, 2020, 2019, and 2018 was \$583, \$442, and \$611, respectively. At December 31, 2020 and December 31, 2019, the Company's share of the accrued post-career benefit liability was \$15,233 and \$15,074, 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.

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, 2020, 2019, and 2018.

	Underfunded		
	Agent Termination Benefits		
	2020	2019	2018
Change in benefit obligation:			
Benefit obligation at beginning of year	\$31,475	\$24,300	\$26,981
Service cost	1,061	769	934
Interest cost	1,019	1,035	969
Actuarial (gain) loss	3,736	5,808	(4,176)
Benefits paid	(466)	(437)	(408)
Benefit obligation at end of year	<u>\$36,825</u>	<u>\$31,475</u>	<u>\$24,300</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —
Reporting entity contribution	466	437	408
Benefits paid	(466)	(437)	(408)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:			
Liabilities recognized			
Accrued benefit costs	\$23,048	\$20,678	\$18,818
Liability for termination benefits	13,777	10,797	5,482
Total liabilities recognized	<u>\$36,825</u>	<u>\$31,475</u>	<u>\$24,300</u>
Components of net periodic benefit cost:			
Service cost	\$ 1,061	\$ 769	\$ 934
Interest cost	1,019	1,035	969
Gains and losses	262	—	196
Prior service cost or credit	493	493	493
Total net periodic benefit cost	<u>\$ 2,835</u>	<u>\$ 2,297</u>	<u>\$ 2,592</u>
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:			
Items not yet recognized as a component of net periodic cost—prior year	\$10,797	\$ 5,482	\$10,347
Net prior service cost or credit recognized	(493)	(493)	(493)
Net gain and loss arising during the period	3,736	5,808	(4,176)
Net gain and loss recognized	(262)	—	(196)
Items not yet recognized as a component of net periodic cost—current year	<u>\$13,778</u>	<u>\$10,797</u>	<u>\$ 5,482</u>

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</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	2,566	3,059	3,553
Net recognized gains and losses	11,211	7,737	1,929
Accumulated benefit obligation	\$21,849	\$18,869	\$15,133
Weighted-average assumptions used to determine net periodic benefit cost as of December 31:			
Discount rate	3.54%	4.49%	3.87%
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	3.01%	3.54%	4.49%
Rate of compensation increase	4.00%*	4.00%*	3.00%*

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

Actuarial losses in the defined benefit obligation at December 31, 2020 were primarily due to a decrease 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>
2021	\$ 530
2022	\$ 565
2023	\$ 607
2024	\$ 649
2025	\$ 691
2026-2030	\$4,365

D. Defined Contribution Plan

The Company participates with its affiliates in a qualified defined contribution plan for which substantially all employees are eligible. Benefits provided by the plan are paid from net assets available for plan benefits. The Company's contribution for the plan was \$136, \$127, and \$181 for 2020, 2019, and 2018, respectively. At December 31, 2020 and December 31, 2019, the fair value of plan assets held in trust was \$15,277,787 and \$13,570,846, respectively.

10. Other Related Party Transactions

The Company reported no receivable due from affiliates and \$4,755 and \$3,790 as a payable due to affiliates at December 31, 2020 and December 31, 2019, 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.

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 Company reported no dividends to SFMAIC in 2020, 2019, and 2018.

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. Rental expense for real estate for 2020, 2019, and 2018 was \$948, \$1,026, and \$1,034, respectively. Rental expense for leased equipment for 2020, 2019, and 2018 was \$8, \$3, and \$11, respectively.

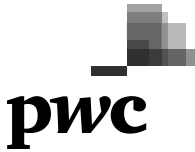
11. Contingencies

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

12. Other

The Company committed to purchase \$13,750 of private placement securities which are expected to be funded in 2021. These securities were not reported as bond investments at December 31, 2020.

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, 2020 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, Investment Risk Interrogatories, and Reinsurance Contracts Schedule (collectively the “supplemental schedules”) of the Company as of December 31, 2020 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, 2021

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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, 2020

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	\$ 4,468
Other bonds (unaffiliated)	91,173
Common Stock	1,767
Contract loans and liens	10,923
Cash, cash equivalents, and short-term investments	141
Gross investment income	<u>\$ 108,472</u>
Bonds and short-term investments by class and maturity:	
Bonds by maturity—statement value	
Due within one year or less	\$ 205,019
Over 1 year through 5 years	1,072,527
Over 5 years through 10 years	1,342,277
Over 10 years through 20 years	234,122
Over 20 years	4,430
Total by maturity	<u>\$2,858,375</u>
Bond by class—statement value	
Class 1	\$2,166,017
Class 2	660,056
Class 3	31,027
Class 4	1,000
Class 5	—
Class 6	275
Total by class	<u>\$2,858,375</u>
Total bonds and short-term investments publicly traded	<u>\$2,264,417</u>
Total bonds and short-term investments privately placed	<u>\$ 593,958</u>
Unaffiliated common stocks—market value	<u>\$ 146,536</u>
Cash on deposit	<u>\$ (4,802)</u>
Cash equivalents	<u>\$ 70,023</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, 2020

Life insurance in force:	
Ordinary	\$47,624,849
Credit life	\$ —
Group life	\$ 51,828
Amount of accidental death insurance in force under ordinary policies	\$ 108
Amount of life insurance with disability provisions in force:	
Ordinary	\$19,746,323
Group life	\$ 51,828
Supplementary contracts in force:	
Ordinary—not involving life contingencies:	
Amount on deposit	\$ 124,939
Income payable	\$ 211
Ordinary—involving life contingencies:	
Income payable	\$ 281
Annuities:	
Ordinary:	
Immediate—amount of income payable	\$ 9,378
Deferred—fully paid account balance	\$ 327,446
Deferred—not fully paid—account balance	\$ 28
Deposit funds and dividend accumulations:	
Deposit funds—account balance	\$ 6,553
Dividend accumulations—account balance	\$ 122,463

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, 2020

	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	134,879,681	4.16	134,879,681		134,879,681	4.16
1.02 All other governments	3,712,896	.11	3,712,896		3,712,896	.12
1.03 U.S. states, territories and possessions, etc. guaranteed	22,310,076	.69	22,310,076		22,310,076	.69
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	110,162,061	3.40	110,162,061		110,162,061	3.40
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	674,303,667	20.79	674,303,667		674,303,667	20.80
1.06 Industrial and miscellaneous	1,913,006,401	58.98	1,913,006,401		1,913,006,401	59.00
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	2,858,374,782	88.13	2,858,374,782		2,858,374,782	88.15
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)	145,752,923	4.49	145,752,923		145,752,923	4.50
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	783,064	.02		783,064	783,064	.02
3.06 Unit investment trusts						
3.07 Closed-end funds						
3.08 Total common stocks	146,535,987	4.52	146,535,987		146,535,987	4.52
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 valuation allowance						
4.06 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)	(4,802,359)	(.15)	(4,802,359)		(4,802,359)	(.15)
6.02 Cash equivalents (Schedule E, Part 2)	70,023,120	2.16	70,023,120		70,023,120	2.16
6.03 Short-term investments (Schedule DA)						
6.04 Total cash, cash equivalents and short-term investments	65,220,761	2.01	65,220,761		65,220,761	2.01
7 Contract loans	172,367,944	5.32	172,360,507		172,360,507	5.32
8 Derivatives (Schedule DB)						
9 Other invested assets (Schedule BA)						
10 Receivables for securities						
11 Securities Lending (Schedule DL, Part 1)						
12 Other invested assets (Page 2, Line 11)	816,713	.03				
13 Total invested assets	<u>3,243,316,188</u>	<u>100.00</u>	<u>3,242,492,038</u>		<u>3,242,492,038</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, 2020

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. \$3,286,005,658
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	\$341,539,505	10.4%
2.02	FNMA CMO ACES	Bonds	\$121,991,891	3.7%
2.03	STATE FARM LIQUIDITY POOL LLC	Cash Equivalents	\$ 64,747,833	2.0%
2.04	FHLMC CMO	Bonds	\$ 46,168,816	1.4%
2.05	FNMA CMO	Bonds	\$ 42,384,100	1.3%
2.06	EXXON MOBIL CORP	Bonds, Common Stock	\$ 30,152,328	0.9%
2.07	JOHNSON & JOHNSON	Bonds, Common Stock	\$ 28,407,496	0.9%
2.08	PEPSICO INC	Bonds, Common Stock	\$ 27,915,327	0.8%
2.09	MARS INC	Bonds	\$ 27,465,550	0.8%
2.10	AT&T INC	Bonds, Common Stock	\$ 25,410,800	0.8%

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

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$2,166,017,304	65.9%	3.07	P/RP-1	\$— —%
3.02	NAIC-2	\$ 660,055,573	20.1%	3.08	P/RP-2	\$— —%
3.03	NAIC-3	\$ 31,026,485	0.9%	3.09	P/RP-3	\$— —%
3.04	NAIC-4	\$ 1,000,000	%	3.10	P/RP-4	\$— —%
3.05	NAIC-5	\$	%	3.11	P/RP-5	\$— —%
3.06	NAIC-6	\$ 275,420	%	3.12	P/RP-6	\$— —%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes []	No [X]
	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	\$259,047,575	7.9%
4.03	Foreign-currency-denominated investments	\$ —	—%
4.04	Insurance liabilities denominated in that same foreign currency	\$ —	—%

See Independent Auditor's Report on Supplemental Financial Information

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

Supplemental Investment Risk Interrogatories, Continued
December 31, 2020

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

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC-1	\$258,769,669	7.9%
5.02 Countries designated NAIC-2	\$ 214,121	%
5.03 Countries designated NAIC-3 or below	\$ 63,785	%

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

Countries designated NAIC-1:		<u>1</u>	<u>2</u>
6.01 Country: Australia		\$60,774,323	1.8%
6.02 Country: United Kingdom		\$56,306,986	1.7%
Countries designated NAIC-2:			
6.03 Country: Curacao		\$ 140,607	%
6.04 Country: Panama		\$ 73,514	%
Countries designated NAIC-3 or below:			
6.05 Country: Liberia		\$ 63,785	%
6.06 Country:		\$ —	—%

7. Aggregate unhedged foreign currency exposure

<u>1</u>	<u>2</u>
\$—	—%

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

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

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

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

See Independent Auditor's Report on Supplemental Financial Information

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

Supplemental Investment Risk Interrogatories, Continued
December 31, 2020

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

	1	2	3	4
	Issuer	NAIC Designation		
10.01	SHELL INTL FIN BV	Bonds 1	22,176,817	0.7%
10.02	AIR LIQUIDE FINANCE SA	Bonds 1	9,429,777	0.3%
10.03	SCHLUMBERGER INVESTMENT	Bonds 1	9,015,807	0.3%
10.04	BASF SE	Bonds 1	8,000,000	0.2%
10.05	SMITH & NEPHEW PLC	Bonds 1, Bonds 2	8,000,000	0.2%
10.06	BHP BILLITON FIN (USA) LTD	Bonds 1	7,995,364	0.2%
10.07	DANONE SA	Bonds 2	7,502,715	0.2%
10.08	COMPASS GROUP	Bonds 1	7,000,000	0.2%
10.09	STATNETT SF	Bonds 1	7,000,000	0.2%
10.10	TOTAL CAPITAL INTL SA	Bonds 1	6,995,450	0.2%

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

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

Yes No

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

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

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

Yes No

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

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

Yes No

	1	2	3
	Issuer		
13.02	APPLE INC	\$9,748,204	0.3%
13.03	MICROSOFT CORP	\$7,731,097	0.2%
13.04	AMAZON.COM INC	\$6,383,583	0.2%
13.05	ALPHABET INC	\$4,760,909	0.1%
13.06	FACEBOOK INC	\$3,018,691	0.1%
13.07	TESLA INC	\$2,459,966	0.1%
13.08	BERKSHIRE HATHAWAY INC	\$2,075,237	0.1%
13.09	JOHNSON & JOHNSON	\$1,904,613	0.1%
13.10	JPMORGAN CHASE & CO	\$1,781,903	0.1%
13.11	VISA INC	\$1,705,875	0.1%

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, 2020

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

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

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

Yes No

	1	2	3	4
	<u>Fund Manager</u>	<u>Total Invested</u>	<u>Diversified</u>	<u>Non-Diversified</u>
14.06	JP Morgan Investment Management Inc . .	\$2,828,998	\$2,828,998	\$
14.07	BNY Mellon Investment Advisor Inc	\$2,446,288	\$2,446,288	\$
14.08	Black Rock Fund Advisors	\$ 783,064	\$ 783,064	\$
14.09		\$	\$	\$
14.10		\$	\$	\$

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

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

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

Yes No

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

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 less than 2.5% of the reporting entity's admitted assets?

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Yes No

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans:

19.01 Are assets held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?

Yes No

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, 2020

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

	At Year-End		1st Qtr	At End of Each Quarter	
	1	2	3	2nd Qtr	3rd Qtr
	1	2	3	4	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	\$—	—%	\$—	\$—	\$—

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	
	1	2	3	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	\$—	—%	\$—	\$—	\$—
22.02 Income generation	\$—	—%	\$—	\$—	\$—
22.03 Replications	\$—	—%	\$—	\$—	\$—
22.04 Other	\$—	—%	\$—	\$—	\$—

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

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

See Independent Auditor's Report on Supplemental Financial Information

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

Supplemental Reinsurance Contracts Schedule
December 31, 2020

1. Reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791.

None

2. Reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk.

None

3. Reinsurance contracts containing features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact:

a. Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).

None

b. Payment schedules, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

None

4. Contracts for which the reporting entity has reflected reinsurance accounting credit for any contracts not subject to Appendix A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP 61R.

None

5. Risk ceded which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

None

See Independent Auditor's Report on Supplemental Financial Information

State Farm Life and Accident Assurance Company Variable Annuity Separate Account

Annual Financial Statement

December 31, 2020

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

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements

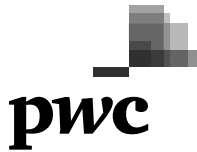
We have audited the accompanying statements of assets and contract owners' equity and surplus of BlackRock Small Cap Index V.I., BlackRock International Index V.I., BlackRock 60/40 Target Allocation ETF V.I., BlackRock S&P 500 Index V.I., BlackRock Government Money Market V.I. and BlackRock Total Return V.I. of State Farm Life and Accident Assurance Company Variable Annuity Separate Account as of December 31, 2020, 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, 2020, 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 Annuity Separate Account as of December 31, 2020 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, 2020 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 management. Our responsibility is to express an opinion on the financial statements of each of the subaccounts in the State Farm Life and Accident Assurance Variable Annuity Separate Account based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to each of the subaccounts in the State Farm Life and Accident Assurance Variable Annuity Separate Account in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

*PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, 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, 2020, 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, 2021

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

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

**Statement of Assets and Contract Owners' Equity
December 31, 2020**

	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
Assets:						
Investments, at market value (1)(2)						
BlackRock Small Cap Index V.I. Fund	7,960,394	\$ —	\$ —	\$ —	\$ —	\$ —
BlackRock International Index V.I. Fund	—	5,309,010	—	—	—	—
BlackRock 60/40 Target Allocation ETF V.I. Fund	—	—	2,848,466	—	—	—
BlackRock S&P 500 Index V.I. Fund	—	—	—	20,594,157	—	—
BlackRock Government Money Market V.I. Fund	—	—	—	—	1,389,217	—
BlackRock Total Return V.I. Fund	—	—	—	—	—	3,928,605
Total Assets	\$ 7,960,394	\$ 5,309,010	\$ 2,848,466	\$ 20,594,157	\$ 1,389,217	\$ 3,928,605
Liabilities:						
Total Liabilities	—	—	—	—	—	—
Net Assets	\$ 7,960,394	\$ 5,309,010	\$ 2,848,466	\$ 20,594,157	\$ 1,389,217	\$ 3,928,605
Net Assets:						
Contract Owners' Equity (3)	\$ 7,960,394	\$ 5,309,010	\$ 2,848,466	\$ 20,594,157	\$ 1,389,217	\$ 3,928,605
Net Assets	\$ 7,960,394	\$ 5,309,010	\$ 2,848,466	\$ 20,594,157	\$ 1,389,217	\$ 3,928,605
(1) Investments, at cost	\$ 7,706,731	\$ 5,692,733	\$ 2,258,635	\$ 17,410,001	\$ 1,389,217	\$ 3,621,763
(2) Shares Owned	611,397	533,569	207,614	754,918	1,389,217	316,237
(3) Accumulation Unit Value	\$ 43.00	\$ 20.87	\$ 33.07	\$ 41.80	\$ 11.52	\$ 21.29
(3) Units Outstanding	185,106	254,354	86,114	492,619	120,577	184,566

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

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

**Statement of Operations
For the Year Ended December 31, 2020**

	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
Investment income:						
Dividend income	\$ 97,181	\$ 101,573	\$ 42,164	\$ 326,954	\$ 5,263	\$ 84,001
Expenses:						
Mortality and expense risk charges	72,725	53,460	29,703	208,918	17,117	44,399
Net investment income (loss)	24,456	48,113	12,461	118,036	(11,854)	39,602
Realized gain (loss)	(157,610)	(136,833)	5,308	33,850	—	4,187
Realized gain distributions	230,490	—	5,374	1,197,322	55	187,290
Change in unrealized appreciation (depreciation), net	1,127,160	419,495	315,287	1,672,305	—	52,538
Net realized and unrealized gain (loss) on investments	1,200,040	282,662	325,969	2,903,477	55	244,015
Net increase (decrease) in contract owners' equity from operations	<u>\$1,224,496</u>	<u>\$ 330,775</u>	<u>\$338,430</u>	<u>\$ 3,021,513</u>	<u>\$(11,799)</u>	<u>\$283,617</u>

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

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

**Statement of Changes in Contract Owners' Equity
For the Year Ended December 31, 2020**

	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
Operations:						
Net investment income (loss)	\$ 24,456	\$ 48,113	\$ 12,461	\$ 118,036	\$ (11,854)	\$ 39,602
Realized gain (loss)	72,880	(136,833)	10,682	1,231,172	55	191,477
Change in unrealized appreciation (depreciation), net	1,127,160	419,495	315,287	1,672,305	—	52,538
Net realized and unrealized gain (loss) on investments	1,200,040	282,662	325,969	2,903,477	55	244,015
Net increase (decrease) in contract owners' equity from operations	1,224,496	330,775	338,430	3,021,513	(11,799)	283,617
Contract owners' equity transactions:						
Proceeds from units purchased	86,696	106,675	21,663	195,628	29,550	80,265
Transfers between subaccounts including fixed account, net	(58,807)	(25,929)	46,729	(186,179)	93,515	24,398
Payments for surrenders and other redemptions	(396,232)	(278,054)	(134,588)	(1,049,690)	(337,762)	(183,325)
Net increase (decrease) in contract owners' equity derived from contract owners' equity transactions	(368,343)	(197,308)	(66,196)	(1,040,241)	(214,697)	(78,662)
Total increase (decrease) in contract owners' equity	856,153	133,467	272,234	1,981,272	(226,496)	204,955
Contract owners' equity:						
Beginning of year	7,104,241	5,175,543	2,576,232	18,612,885	1,615,713	3,723,650
End of year	<u>\$7,960,394</u>	<u>\$5,309,010</u>	<u>\$2,848,466</u>	<u>\$20,594,157</u>	<u>\$1,389,217</u>	<u>\$3,928,605</u>

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

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

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

	<u>BlackRock Small Cap Index V.I. Subaccount</u>	<u>BlackRock International Index V.I. Subaccount</u>	<u>BlackRock 60/40 Target Allocation ETF V.I. Subaccount*</u>	<u>BlackRock S&P 500 Index V.I. Subaccount</u>	<u>BlackRock Government Money Market V.I. Subaccount</u>	<u>BlackRock Total Return V.I. Subaccount</u>
Operations:						
Net investment income (loss)	\$ 8,568	\$ 107,373	\$ 21,149	\$ 179,692	\$ 12,969	\$ 59,356
Realized gain (loss)	210,776	(104,106)	36,521	1,015,703	—	21,260
Change in unrealized appreciation (depreciation), net	1,189,619	881,653	387,703	3,185,842	—	208,859
Net realized and unrealized gain (loss) on investments	1,400,395	777,547	424,224	4,201,545	—	230,119
Net increase (decrease) in contract owners' equity from operations	1,408,963	884,920	445,373	4,381,237	12,969	289,475
Contract owners' equity transactions:						
Proceeds from units purchased	103,574	114,188	53,278	236,519	41,973	81,322
Transfers between subaccounts including fixed account, net	(18,835)	(49,078)	(18,158)	(89,401)	(20,312)	(49,044)
Payments for surrenders and other redemptions	(369,780)	(216,740)	(155,894)	(782,656)	(31,342)	(141,228)
Net increase (decrease) in contract owners' equity derived from contract owners' equity transactions	(285,041)	(151,630)	(120,774)	(635,538)	(9,681)	(108,950)
Total increase (decrease) in contract owners' equity	1,123,922	733,290	324,599	3,745,699	3,288	180,525
Contract owners' equity:						
Beginning of year	5,980,319	4,442,253	2,251,633	14,867,186	1,612,425	3,543,125
End of year	<u>\$7,104,241</u>	<u>\$5,175,543</u>	<u>\$2,576,232</u>	<u>\$18,612,885</u>	<u>\$1,615,713</u>	<u>\$3,723,650</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 Annuity Separate Account

Notes to Financial Statements

1. General Information

Organization

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

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

2. Significant Accounting Policies

Valuation of Investments

As of December 31, 2020, the assets of the Separate Account are invested in one or more of the funds (the "Fund(s)") of BlackRock Variable Series Funds, Inc. and BlackRock Variable Series Funds II, Inc. (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 contract owners. The net assets of each subaccount of the Separate Account reflect the investment management fees and other operating expenses incurred by the Funds.

Fair Value

Fair value is defined as the price that the Separate Account would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. All Funds in the Separate Account included in the Statement of Assets and Contract Owners' Equity are stated at fair value and are based upon closing NAV per share and are therefore considered Level 1. The NAVs are published daily by the Funds' managers. The assets of the Separate Account were valued at \$42,029,849 and \$38,808,264 as of December 31, 2020 and 2019 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 contracts on each valuation date based on each contract's pro rata share of the assets of the fund as of the beginning of the valuation date.

Accumulation Unit Valuation

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

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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 contract owners' interest to or from another eligible subaccount from or to the fixed account option of the general account of the Company.

Estimates

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

3. Expenses and Related Party Transactions

A mortality and expense risk charge, which includes a death benefit guarantee risk charge, is deducted by the Company from the Separate Account on a daily basis, which is equal, on an annual basis, to 1.15% of the daily net asset value of the contract owners' portion of assets in the Separate Account. The daily mortality and expense risk charges are assessed through the reduction in unit values. The charge may be adjusted after contract issue, but it is guaranteed not to exceed 1.25% of net assets. The death benefit guarantee risk charge covers the risk that the death benefit as defined will be greater than the accumulation value. This could result from a decline in the value of the subaccounts due to market performance. Although periodic retirement payments to contract owners vary according to the investment performance of the fund, such payments are not affected by the mortality or expense experience because the Company assumes the mortality risk and the expense risk under the contracts. The mortality risk assumed by the Company results from the life annuity payment option in the contracts in which the Company agrees to make annuity payments regardless of how long a particular annuitant or other payee lives. The annuity payments are determined in accordance with annuity purchase rate provisions established at the time the contracts are issued. There were no net assets allocated to annuitized contracts as of December 31, 2020. Based on the actuarial determination of expected mortality, the Company is required to fund any deficiency in the annuity payment reserves from its general account assets.

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

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

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

4. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 2020 and 2019 are as follows:

<u>Subaccount</u>	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Units Issued</u>	<u>Units Redeemed</u>	<u>Net Increase (Decrease)</u>	<u>Units Issued</u>	<u>Units Redeemed</u>	<u>Net Increase (Decrease)</u>
BlackRock Small Cap Index	3,206	13,801	(10,595)	3,610	12,135	(8,525)
BlackRock International Index	6,964	17,420	(10,456)	6,546	14,926	(8,380)
BlackRock 60/40 Target Allocation ETF*	2,476	4,649	(2,173)	2,016	6,340	(4,324)
BlackRock S&P 500 Index	6,899	34,702	(27,803)	7,846	27,164	(19,318)
BlackRock Government Money Market	14,613	33,137	(18,524)	3,823	4,660	(837)
BlackRock Total Return	7,133	10,876	(3,743)	4,733	10,365	(5,632)

* 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, 2020, by each subaccount are shown below:

<u>Subaccount</u>	<u>December 31, 2020</u>	
	<u>Purchases</u>	<u>Sales</u>
BlackRock Small Cap Index	\$ 366,663	\$ 480,061
BlackRock International Index	166,038	315,232
BlackRock 60/40 Target Allocation ETF	109,660	158,021
BlackRock S&P 500 Index	1,604,096	1,328,979
BlackRock Government Money Market	159,390	385,886
BlackRock Total Return	375,940	226,418
Total	<u>\$2,781,787</u>	<u>\$2,894,597</u>

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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, 2020 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, 2020				For the Year Ended December 31, 2020		
	Units	Net Assets	Unit Fair Value		Investment Income Ratio*	Expense Ratio**	Total Return***
			Beginning	Ending			
BlackRock Small Cap Index	185,106	\$ 7,960,394	\$36.30	\$43.00	1.29%	1.15%	18.46%
BlackRock International Index	254,354	\$ 5,309,010	\$19.54	\$20.87	1.94%	1.15%	6.81%
BlackRock 60/40 Target Allocation ETF	86,114	\$ 2,848,466	\$29.18	\$33.07	1.55%	1.15%	13.33%
BlackRock S&P 500 Index	492,619	\$20,594,157	\$35.76	\$41.80	1.67%	1.15%	16.89%
BlackRock Government Money Market	120,577	\$ 1,389,217	\$11.62	\$11.52	0.35%	1.15%	(0.86)%
BlackRock Total Return	184,566	\$ 3,928,605	\$19.78	\$21.29	2.20%	1.15%	7.63%

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	195,701	\$ 7,104,241	\$29.28	\$36.30	1.32%	1.15%	23.98%
BlackRock International Index	264,810	\$ 5,175,543	\$16.26	\$19.54	3.40%	1.15%	20.17%
BlackRock 60/40 Target Allocation ETF****	88,287	\$ 2,576,232	\$24.31	\$29.18	2.05%	1.15%	20.03%
BlackRock S&P 500 Index	520,422	\$18,612,885	\$27.54	\$35.76	2.25%	1.15%	29.85%
BlackRock Government Money Market	139,101	\$ 1,615,713	\$11.52	\$11.62	1.95%	1.15%	0.87%
BlackRock Total Return	188,309	\$ 3,723,650	\$18.27	\$19.78	2.80%	1.15%	8.26%

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

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

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

- * The Investment Income Ratio represents the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund, divided by the average net assets. This ratio excludes those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in the unit value or the redemption of units. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.
- ** This ratio represents the annualized contract expenses of the separate account, resulting in a direct reduction of unit values, consisting primarily of mortality and expense charges. Charges that require redemption of contract owner units are excluded. There is no fluctuation in the annualized mortality and expense charge. This ratio does not include the expenses incurred by the underlying funds. Refer to Note 3.
- *** The total return is calculated using the beginning and ending unit value, which reflects the changes in the underlying fund values and reductions related to the Expense Ratio, for the period indicated.
- **** BlackRock iShares Dynamic Allocation V.I. Fund renamed to BlackRock 60/40 Target Allocation ETF V.I. Fund effective May 1, 2019.