



SOCIETY OF ACTUARIES



AMERICAN ACADEMY *of* ACTUARIES

**How Will PBA Rock Your World? Seminar
May 19, 2010**

Session 6 – Taxes in a PBA World Discussion

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Recent Tax Guidance on AG 43

- Notice 2010-29 issued on 3/25/10 effective for variable annuity contracts issued on or after 12/31/09
- Follow-up to Notice 2008-18
- Provides “interim” guidance on certain company tax issues under Actuarial Guideline XLIII (AG 43) (VACARVM)
- Addresses selected issues under IRC §§ 807(d), 807(f), & 816



AG 43 Guidance (cont.)

- For IRC § 816(a) (qualification as life insurer for tax purposes), Standard Scenario Amount (SSA) is in life insurance & total reserves; no comment on Conditional Tail Expectation (CTE) amount
- For IRC § 807(d)(1) “statutory cap,” SSA is included in statutory reserves; again, no comment on CTE amount



AG 43 Guidance (cont.)

- For IRC § 807(d)(2) “federally prescribed reserve” computation, SSA is used, but not CTE amount
 - Use of SSA’s PSAIR & mortality table
 - Use of SSA’s “method” – implications of *CIGNA & American Financial* cases
- IRC § 807(f) 10-year spread applies
- Effects of delay in use of AG 43



AG 43 Guidance (cont.)

- Notice applies AG 43 to tax reserves for contracts issued on, as well as after, 12/31/09
- “No inference” as to other AGs or life insurance principles-based reserves
- No request for comment; other issues remain under study
- Industry response



Notice 2008-18: Life PBR Issues

- Life insurance reserve treatment
- IRC § 7702 compliance
- Seriatim requirement
- Interest assumptions (PSAIR)
- Mortality tables
- Discretion in reserve calculations & effect on IRS auditing of reserves



Notice 2008-18 Issues (cont.)

- Transition (IRC § 807(f))
- Request for comments on:
 - Modeling of effect on reserves
 - CRVM characterization
 - Company-specific assumptions
 - Gross vs. net premium valuation
 - Annual changes in assumptions



Time for Questions

- Questions?
 - Questions?
 - Questions?
 - Questions?
 - Questions?



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