SOCIETY OF ACTUARIES

SMALLER INSURANCE COMPANY SECTION

Small Talk

ISSUE 49 • MARCH 2018

A Few Thoughts About Tax Reform

By Pam Hutchins and Mark Rowley

Page 4

3 **Chairperson's Corner**
By Mark Rowley

4 **A Few Thoughts About Tax Reform**
By Pam Hutchins and Mark Rowley

6 **President Signs Tax Reform Bill With Numerous Changes Affecting the Insurance Industry**
By Ann Cammack, Michael Beaty, Norman Hannawa, Scott Guasta, Howard Stecker and Jeff Levey

Small Talk

Issue Number 49 • March 2018

Published biannually by the Smaller Insurance Company Section of the Society of Actuaries.

475 N. Martingale Road, Suite 600
Schaumburg, Ill 60173-2226
Phone: 847.706.3500 Fax: 847.706.3599
www.soa.org

This newsletter is free to section members. Current issues are available on the SOA website (*www.soa.org*).

To join the section, SOA members and non-members can locate a membership form on the Smaller Insurance Company Section webpage at *http://www.soa.org/sections/small-insurance/small-insurance-landing/*.

This publication is provided for informational and educational purposes only. Neither the Society of Actuaries nor the respective authors' employers make any endorsement, representation or guarantee with regard to any content, and disclaim any liability in connection with the use or misuse of any information provided herein. This publication should not be construed as professional or financial advice. Statements of fact and opinions expressed herein are those of the individual authors and are not necessarily those of the Society of Actuaries or the respective authors' employers.

Copyright © 2018 Society of Actuaries. All rights reserved.

Publication Schedule
Publication Month: Sept. 2018
Articles Due: June 18, 2018

2018 SECTION LEADERSHIP

Officers
Mark Rowley, FSA, MAAA, Chairperson
Julie Hunsinger, FSA, MAAA, Vice Chairperson
Carolyn Covington, FSA, CERA, MAAA, Secretary/Treasurer

Council Members
Mark Birdsall, FSA, FCA, MAAA, MBA
Kevin Dill, FSA, MAAA
Pamela Hutchins, FSA, MAAA
Stefanie Porta, ASA, MAAA
Adam Wendling, FSA, MAAA
Jacqueline Yang, FSA, ACIA, MAAA

Newsletter Editors
Scott Haglund, FSA, MAAA
sdhaglund@fedins.com

Jonathan Pollio, FSA, MAAA
jpollio@amalgamatedlife.com

Program Committee Coordinators
Stefanie Porta, ASA, MAAA
Stephen Rook, FSA, MAAA
2018 Valuation Actuary Symposium Coordinators

Jacqueline Yang, FSA, ACIA, MAAA
Michelle Grusenmeyer, FSA, MAAA
2018 Life & Annuity Symposium Coordinators

Carolyn Covington, FSA, CERA, MAAA
Steve Chamberlin, FSA, MAAA
2018 SOA Annual Meeting & Exhibit Coordinators

SOA Staff
David Schraub, FSA, CERA, MAAA, AQ, Staff Partner
dschraub@soa.org

Jessica Boyke, Section Specialist
jboyke@soa.org

Julia Anderson Bauer, Publications Manager
jandersonbauer@soa.org

Julissa Sweeney, Senior Graphic Designer
jsweeney@soa.org

Chairperson's Corner

By Mark Rowley

We are pleased to offer this special newsletter that focuses on the urgent issue of tax reform. With the passage of tax reform in December 2017, there has been challenging work for actuaries and accountants this year-end. We hope this short newsletter will be beneficial as you work through tax reform in 2018. We will look to disseminate more information about tax reform as it becomes available.

Look for our April webinar on tax reform.

We have at least eight channels to disseminate information:

- Webinars
- Town halls
- Meeting sessions, especially the Valuation Actuary Symposium and Society of Actuaries (SOA) Annual Meeting & Exhibit
- Podcasts
- This newsletter (twice per year; see *https://www.soa.org/sections/small-insurance/small-insurance-newsletter/*)
- Research projects
- Blast emails
- Section webpage (*https://www.soa.org/sections/small-insurance/small-insurance-landing/*, check this often for more information!)

We will use all these tools in 2018 to get helpful information out to small company actuaries.

It is a joy to serve this group! ■

Mark Rowley, FSA, MAAA, is vice president, managing actuary with EMC National Life in Des Moines, Iowa. He can be reached at *mrowley@emcnl.com.*

A Few Thoughts About Tax Reform

By Pam Hutchins and Mark Rowley

With tax reform passing in December 2017, insurance companies had some extra work to do for year-end 2017:

- The net deferred tax assets had to reflect the new tax law.
- Tax reserves had to be calculated the old way and the new way to be used in the net deferred tax calculation.
- Appointed actuaries had to decide what to do with asset adequacy analysis.

As with most new legislation or regulations, the new tax law had to be interpreted, and not all the details were clear. Actuaries and accountants used their best interpretations of the law to do their year-end work.

In this article, we summarize what is our best understanding, as of the date this article is written, of key provisions of the tax law. Our understanding of how to interpret the tax law will no doubt change as time goes on and certain provisions are clarified.

1. Small life insurance company deduction is repealed beginning with 2018 tax returns. The old law allowed lower marginal tax rates for certain amounts of taxable income if companies met the asset qualification test.
2. Capitalization and amortization of the policy deferred acquisition costs (DAC tax) rates increase, starting with 2018 premiums:
   a. Nonqualified annuities go from 1.75 percent to 2.09 percent.
   b. Group life goes from 2.05 percent to 2.45 percent.
   c. All other business goes from 7.70 percent to 9.20 percent.

   For companies that have used a 10-year amortization, the amortization period will increase to 15 years. However, companies can still use a five-year amortization for the first $5 million of specified policy acquisition expenses. Some small companies only ever have to use the five-year amortization.
3. Adjustments for changes in basis to tax reserves after 2017 (strengthening or weakening) go from a 10-year amortization to four years. Companies may also need to review what results in a change in basis that must be spread.
4. Life insurance tax reserves calculation is changed. For nonvariable contracts, it is, as of Jan. 1, 2018, the greater of:
   a. The contract's net surrender value (cash value) or
   b. 92.81 percent × (statutory reserve minus statutory net due and deferred premium).

   However, the tax reserve cannot be greater than the statutory reserve and cannot include asset adequacy or deficiency reserves.

   Our interpretation is that the 92.81 percent applies to (statutory reserve minus statutory net due and deferred premium). However, there are other interpretations that call for applying the 92.81 percent to just the statutory reserve. It is an important difference!

   Our interpretation is that the contract's cash value is compared to 92.81 percent × (statutory reserve minus statutory net due and deferred premium). However, as noted above, there are other interpretations that would compare it to 92.81 percent of the statutory reserve. Another important difference!

   If your statutory reserves are not calculated using the minimum standards (state required mortality table, interest rate and method) as of the policy effective date, it is

our interpretation that statutory reserves will need to be adjusted to minimum to be used for this calculation.

5. The difference between old and new tax reserves as of Dec. 31, 2017, is amortized into taxable income over eight years, starting with the 2018 tax return.

For asset adequacy analysis, some actuaries will at least perform sensitivity analysis projecting the new tax reserves and marginal tax rates. This could be difficult as actuarial modeling software isn't set up to calculate tax reserves in this way. Some actuaries are doing the sensitivity but approximating the new tax reserve calculations.

For more details, see "President Signs Tax Reform Bill With Numerous Changes Affecting the Insurance Industry." ■

Pam Hutchins, FSA, MAAA, is senior vice president and chief actuary at Government Personnel Mutual Life in San Antonio, Texas. She can be reached at *aph@ gpmlife.com.*

Mark Rowley, FSA, MAAA, is vice president, managing actuary with EMC National Life in Des Moines, Iowa. He can be reached at *mrowley@ emcnl.com.*

Listen at Your Own Risk

The SOA's new podcast series explores thought-provoking, forward-thinking topics across the spectrum of risk and actuarial practice. Listen as host Andy Ferris, FSA, FCA, MAAA, leads his guests through lively discussions on the latest actuarial trends and challenges.

Listen at your own risk

Visit ***SOA.org/Listen*** to start listening.

President Signs Tax Reform Bill With Numerous Changes Affecting the Insurance Industry

By Ann Cammack, Michael Beaty, Norman Hannawa, Scott Guasta, Howard Stecker and Jeff Levey

Editor's note: This article originally appeared in the EY Tax Alert. *Copyright © 2018 Ernst & Young LLP. Reprinted by permission of Ernst & Young LLP. All rights reserved. To read the full article and disclaimer, click here.*

On December 22, 2017, the President signed the "Tax Cuts and Jobs Act" (H.R. 1) (referred to herein as the final bill, the bill or the new law) into law, the first major overhaul of the federal income tax in more than 30 years. The enactment of the bill came a week after the House and Senate conferees to the Tax Cuts and Jobs Act released a Conference Agreement (December 15, 2017), which was ultimately approved by the Senate (December 19, 2017) and the House (December 20, 2017). Previously, the House of Representatives passed its version of the Tax Cuts and Jobs Act on November 16th (House Bill) and, two weeks later, the Senate passed its tax reform bill on December 2nd (Senate Bill).

The bill dramatically lowers the corporate tax rate from 35% to 21% beginning in 2018. This rate reduction, as well as other changes, did come at a significant revenue cost and, as a result, the bill needed to raise revenue through other changes in the tax law. Among these changes were provisions that directly impact insurance companies. All of the insurance-specific provisions in the final bill were scored as revenue raisers by the Joint Committee on Taxation (JCT), with the largest revenue being generated from the changes in the tax reserve calculations for life and property/casualty companies. In all, the bill's insurance tax provisions are expected to raise approximately $40 billion over the next 10 years, excluding the other revenue raisers on corporations that are also applicable to insurers. This Alert identifies key changes in the new law relevant to the insurance industry. Companies must study the bill closely, assess its impact and immediately begin the process of recording and disclosing the financial reporting effects of the new law. ■

Please link to the official regulation for your own analysis at *https://www.congress.gov/bill/115th-congress/house-bill/1.*

Ann Cammack is part of EY's National Tax team and can be reached at *Ann.Cammack@ey.com*.

Michael Beaty is a member of the Financial Services Office team at EY and can be reached at *Michael.Beaty@ey.com.*

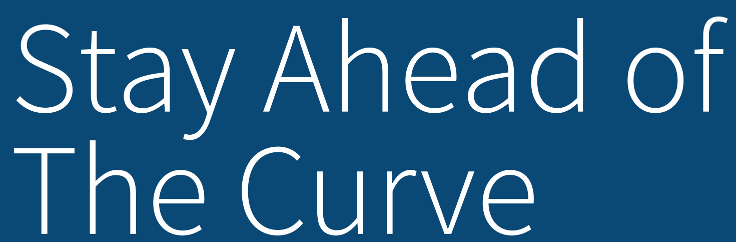
Norman Hannawa is a member of the Financial Services Office team at EY and can be reached at *Norman.Hannawa@ey.com.*

Scott Guasta is a member of the Financial Services Office team at EY and can be reached at *Scott.Guasta@ey.com.*

Howard Stecker is a member of the Financial Services Office team at EY and can be reached *Howard.Stecker@ey.com.*

Jeff Levey is a member of the Washington Council EY team and can be reached at *Jeff.Levey@ey.com.*

MAY 7–8 | Baltimore, MD



In addition to strengthening your knowledge of the life insurance industry, the **2018 SOA Life & Annuity Symposium** features valuable opportunities to network with peers, colleagues, technical experts and friends—all in one place. Register at ***SOA.org/LAS.***

SOCIETY OF ACTUARIES®

475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
p: 847.706.3500 f: 847.706.3599
w: www.soa.org