



SOCIETY OF ACTUARIES

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## Getting to Know Walter Welsh

The life insurance industry is currently facing significant tax challenges (e.g., Principle-Based Reserves or PBR, Dividend-Received Deduction or DRD). The American Council of Life Insurers (ACLI) provides a strong voice for the industry on tax related issues. With this in mind, the Taxing Times Editorial Board thought it would be important for the Taxation Section members to get to know the new head of the ACLI tax area, Walter Welsh. Welsh recently joined the ACLI as executive vice president, Taxes and Retirement Security. Kory J. Olsen, Taxation Section chair, caught up with the busy Welsh to talk about the ACLI, retirement issues and insurance regulation. Following is that interview.

**OLSEN:** Walter, we are glad to see you in your new role at ACLI. To start out, could you provide a brief summary of your professional background?

**WELSH:** I've always been involved in tax issues. After law school, I was a trial attorney with the IRS Office of Chief Counsel in New York. In this role I was engaged in resolving disputes and litigating individual and corporate income tax cases. I returned to Connecticut to join a tax law firm specializing in business tax planning, retirement plans and estate planning. After some years, I joined Hartford as tax counsel with a concentration on resolving many ongoing company disputes with the IRS and working on the application of tax law and the development of new tax rules for new forms of life insurance products, such as universal life insurance and modified guaranteed annuities. Operations in Europe and Asia provided a steady dose of international tax issues. In recent years at Hartford, I was responsible for corporate and government relations for the life insurance company. This role contained a central focus on tax legislation and regulation. I always had some awareness of the impact of media on legislation, but this new position provided direct experience

with the power of the media to influence tax legislation. A good example of this is the impact of the media stories about corporate-owned life insurance that helped generate insurance law and tax law proposals.

My educational background includes an undergraduate degree from Tufts University, a law degree from University of Connecticut School of Law (where I have been a member of the adjunct faculty teaching tax courses for a number of years) and a master's in tax law from the New York University School of Law.

**OLSEN:** What motivated you to leave Hartford and take on this new position at ACLI?

**WELSH:** I have enjoyed working with ACLI staff and participating in many of its committees on taxes and retirement issues for a number of years. In 2007, when I was planning to retire from the Hartford and devote full time to a career teaching in law school, I learned of the open position in Taxes and Retirement at ACLI. I saw it as an opportunity to continue working on tax and retirement issues, which are expected to be increasingly important in the coming years. I was also happy to have the chance to stay involved with ACLI staff and many in the industry with whom I have enjoyed working over the years.

**OLSEN:** You mentioned retirement and tax as growing in importance. What are some of the issues you see ahead?

**WELSH:** We are all aware of the growing retirement age population. Life insurers have been at the forefront of developing new forms of benefits in life insurance and annuity contracts, including new forms of long-term care riders and a whole range of living benefits for

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annuities. Having worked for Tom Marra, president and CEO of The Hartford, and past chairman of ACLI, I heard him frequently describe how well positioned life insurers are to provide products with a variety of guarantees to meet the needs of the expanding retiree population. These new products are great for our customers, but they present important issues for insurance regulation, and tax and retirement plan law and regulation.

**OLSEN:** Do you think these new products will require new federal tax legislation?

**WELSH:** Certainly the new products are fostering consideration of new state insurance laws and regulation for reserves, but these changes in state rules can probably be accommodated by Department of Treasury and Department of Labor regulations. The Internal Revenue Code provisions governing life insurance companies and their products were significantly refined in the mid-1980s. Those Tax Code provisions provide a framework that gives regulators sufficiently wide latitude to interpret the law to respond to new developments.

**OLSEN:** How do you see the role of ACLI in responding to these changes in regulation?

**WELSH:** ACLI, as an organization that represents almost the entire community of life insurers, can be an important force in any legislative or regulatory issue. ACLI staff brings a variety of disciplines to any issue including legal, actuarial, accounting, legislative, tax pensions, economic research and public relations. More importantly, key strengths are found in the talented staff of ACLI member companies, who make great efforts in the many ACLI initiatives.

**OLSEN:** What is an example of some of these challenges?

**WELSH:** The readers of *Taxing Times* are well aware of the issues around new NAIC rules for reserves for life insurance and annuity products (*a.k.a.* PBR). ACLI tax staff and actuarial staff are working closely together on these issues.

**OLSEN:** Have you had much experience working with actuaries?

**WELSH:** In my long experience in roles in government affairs and tax law, I always worked closely with many

actuaries. I worked with Chris DesRochers, early in his career, when Hartford was one of the first issuers of universal life. The rules for reserves and taxation of universal life were unclear, and we worked together with ACLI and many in the industry on the development of tax rules that continue to govern today.

In annuity products, Hartford took the lead in developing the modified guaranteed annuities, and I worked with Craig Raymond, ACLI, and others in the industry in seeking accommodations in the nonforfeiture law and changes in tax law. In recent years, I have had the good fortune to work with and learn from Tom Campbell, who has been steadfast in his commitment to a principle-based approach to reserves. At ACLI, it is great to work with Paul Graham and John Bruins.

The actuaries have their fingers on the pulse of the life insurance business. They understand insurance risk, investment risk, product design, profitability and taxes. I've said this in other places, so it doesn't hurt to say it here—I've learned much about the life insurance business from actuaries, and I've worked with many in the industry to obtain good results on regulatory and tax issues.

**OLSEN:** What do you see as the most exciting challenges ahead?

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**WELSH:** The new products and new rules for reserves are causing a review of the key elements of life insurance company taxation established in the mid-1980s. Legal, actuarial and accounting professionals in the industry and the government, many of whom I have known for a long time, are working together to provide regulatory responses. I am glad to have a chance to continue to be part of this important effort. Life insurers will play an increasingly important role in helping customers meet their financial and retirement security needs. ACLI and its member companies will be at the center of the efforts to develop legislative and regulatory regimes to support that role.



**OLSEN:** You have mentioned the challenge of the new reserving requirements, which is definitely a major issue for the industry. What are some other, lesser known challenges you see coming?

**WELSH:** Certainly, another important issue is the treatment of the dividends-received deduction for insurance companies. This issue received prominence this year when the Internal Revenue Service issued a revenue ruling modifying its longstanding practice for the treatment of the dividends-received deduction with respect to dividends received on stocks held by an insurance company in a separate account. This issue has been described in detail in other issues of *Taxing Times*. We expect to participate in the resolution of this issue through the regulatory process during the course of 2008.

Our past experience shows that in times of deficits Congress has taken a close look at the taxation of insurance companies and their products. We are confident of the appropriate nature of the taxation of life insurance companies and products, but ACLI continues to work with its members to marshal our resources to respond to any tax challenges.

**OLSEN:** What are your long term goals for the ACLI tax function?

**WELSH:** At ACLI, we have the tax and retirement policy functions together. Much of retirement policy is intertwined with tax policy. The life insurance industry expects to be a significant part of the solution for retirees in the coming years. The ACLI and its Taxes and Retirement Security staff can be a catalyst for concerted industry efforts to obtain favorable tax regulation and legislation and to maintain current tax and retirement benefits, which are critical to the industry's products. Our tax and retirement staff includes three dedicated professionals—Bill Elwell, Mandana Parsazad and Jim Szostek. The strength of ACLI lies in its ability to bring together almost every life insurance company in the industry. We know that our effectiveness depends on the talents of our member companies' tax staffs and their professional advisers. The companies participate through three key committees with the following chairs for 2008: David Carlson, Hartford, Company Federal Taxation Committee; Michael Oleske, New York Life, Product Federal Taxation Committee; and James Lang, Principal Financial Group, Pension Committee. I hope that my long-term experience in the industry, with working relationships with many of the professionals, can help bring people together through ACLI to work on new and important regulatory and legislative issues.

**OLSEN:** Prior to arriving at ACLI, was there a particular tax issue that held your attention more than others?

**WELSH:** At Hartford, we were instrumental in the industry efforts to propose a lower tax rate on the income from annuity payouts for life. This proposed legislation was important because of its recognition of the importance of lifetime annuity payments and the relevance of a tax rate that takes into account the long-term nature of these annuity payments and the underlying fairness in applying a rate of tax that is similar to the tax rate of many other investments. This proposal has been supported by a coalition of groups outside the insurance industry, but budget deficits in recent years have presented a difficult challenge for any tax incentive.

**OLSEN:** Now that you are at the ACLI, is there a particular issue that you want to see move forward?

**WELSH:** At ACLI, we know that member companies continue to be interested in the proposal for tax exclusion for lifetime annuity payments. As ACLI and its members look ahead, we need to think about this incentive and other means of encouraging lifetime payments

from annuities and from qualified retirement plans. Some of these approaches will have a tax component, but there may be other mechanisms to encourage the use of these important lifetime products.

On a much broader scale, life insurance companies will be taking the lead in developing new forms of products for retirees, and ACLI and its member companies need

to take the lead in developing and fostering the appropriate tax posture for these products.

**OLSEN:** Walter, thank you for taking the time from your busy schedule for this interview and to help our readers get to know you a little better. I look forward to seeing the progress of your efforts on these topics. ◀

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## SAVE THE DATE

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### The Product Tax Seminar is Coming!

Grand Hyatt Washington, DC  
**September 8–10, 2008**

This promises to be an exciting and informative seminar providing attendees with timely tax topics impacting life insurance products.

Planning is on track with key features to include:

Boot camp and seminar format, and participation from the Treasury and the IRS. We hope to see you there!