Article from:

Taxing Times

September 2005 – Volume 1, No. 2

Role of the Tax Actuary

by Kory J. Olsen and Steven C. Chamberlin

The Taxation Section recently conducted a survey to gather information on the role of the tax actuary within insurance companies. The survey was sent to all Taxation Section members. Respondents were asked to provide one response per company group from the highest-ranking tax actuary (or the highest-ranking person involved with the questioned tax activities). We had a great response rate of 40 responses, giving us a very credible look at the tax actuary and a good view of the Taxation Section. Thank you to all our participants. Your responses will help to set the direction for the section.

The responses covered the spectrum of company sizes, with 1/4 from company groups with total assets under $1 billion, 1/4 from company groups with total assets of more than $100 billion, and 1/2 from company groups with total assets spread out evenly in between the two extremes.

The product areas of the responding companies are highly concentrated. Life insurance is the most common product with 90 percent of the respondents carrying it (56 percent of these companies listed life insurance as their primary product focus). Annuities were present in 75 percent of the responding companies with responses showing an 80 percent primary product concentration in life insurance and annuities (either individually or jointly). Health insurance was a distant third with 38 percent of the companies carrying health products.

Tax Actuary Position

The majority of respondents do not have a formal tax actuary position (77 percent). Of those company groups with a formal tax actuary position, either one or two actuaries fill that role. One respondent had as many as five actuaries that are considered tax actuaries. The tax actuaries are generally located in the tax area, with some located in the valuation, corporate or the controller's area.

The size of the responding company group seems to influence the existence of a formal tax actuary position. The survey found that of companies that have a tax actuary position: 70 percent employ more than 50 actuaries, 20 percent employ between 21 and 50 actuaries, and only one employs five actuaries or less.

With so few formal tax actuary positions, there is little formal training for that position. Training is almost entirely on-the-job training (75 percent). Of the remaining 25 percent, there is some additional form of training, but it is not part of a formalized program. With the formation of the Taxation Section, the plan is that more organized training opportunities will become available.

Although the duties of the tax actuary seem to vary widely from organization to organization there is some commonality in the work they perform. For example, most do a detailed periodic review of trends by product or exhibit (72 percent) and gather documentation and meet with the valuation area(s) (72 percent). In addition, the majority perform a cursory review of the valuation systems statutory reserve calculations with some doing a more detailed review and some doing no review. Just over half of the tax actuaries also have the responsibility of having a deep level of understanding of the statutory reserve authoritative guidance.

Reviewing seriatim detail reserve calculations is generally not a part of the tax actuary position. The survey showed that 57 percent do not do a detailed review for statutory reserves and 43 percent do not do a detailed review for tax reserves. If a review is done it is mostly at the cursory level, although doing a detailed reserve calculation for statutory and tax can provide the tax actuary with valuable insights.

Non Formalized Position

For company groups without a formal tax actuary position, their primary resource (i.e., the resource to do routine activities) for tax actuarial expertise is other in-house actuaries. The majority (50 percent) of these in-house actuaries is located in the valuation area(s) with an additional 12 percent located in the corporate area. Only 12 percent of the responding companies outsource to a consulting firm as their primary resource. However, as a secondary resource (i.e., advisors on certain technical issues on an as-needed basis), consulting firms are utilized by almost 50 percent of the responding company groups.

Education / Expertise

The respondents were asked how the tax actuaries (either formally or informally named) maintain or expand their level of expertise. The results were consistent over all the topic areas questioned. Most respondents achieve their educational needs from either actuarial seminars (SOA and other actuarial organizations) or from newsletters, periodicals and other tax-related publications. External seminars (accounting firms and non-actuarial organizations) contributed some, with their largest contribution being on the topic of GAAP guidance.

The educational needs appear to be primarily in the area of statutory reserving guidance, tax reserving guidance, risk based capital issues, GAAP guidance, hot topics within the industry and other industry issues.

The educational needs appear to be primarily in the area of statutory reserving guidance, tax reserving guidance, risk-based capital issues, GAAP guidance, hot topics within the industry and other industry issues.

Product-Specific Involvement

For those company groups with life (90 percent), annuity (75 percent) or health insurance business (38 percent), the survey requested additional information on the role of the tax actuary in the scope of their products. For the items listed in the table, respondents were asked to list whether their level of involvement was "responsible" (i.e., sign-off on it), "consulted" (i.e., provide input), "informed" (i.e., provided a copy after the fact) or "not involved." For most of the topics, the level of responsibility was higher for life and annuity business than it was for health insurance.

Some of the results are surprising. For example, only a small number of tax actuaries are responsible for reviewing tax to statutory reserve ratios and trends (36 percent life, 42 percent annuity and 22 percent health). With reserve liabilities being such a large portion of the insurance company balance sheet, differences between statutory and tax reserves can have a major impact on taxable income. Reviewing these ratios and trends can lead a tax actuary to focus in on a certain area or discover some unforeseen problem.

In addition, respondents were asked to indicate who else was involved in these processes besides the tax actuary. Multiple responses were allowed in this category. "Other actuaries" was the most common response, followed closely by "Accountants" for most of the topics. With "Other actuaries" being involved in so many of these activities, it indicates that the need to be knowledgeable about tax issues goes significantly beyond the tax actuary, as his role appears to be currently defined in many organizations. Or, alternatively, the tax actuary's role needs to be significantly expanded.

The responses for some of the topics were quite similar, and an average of the results is provided. Table 1 summarizes the results for these topics:

Table 1

1. *Determine tax reserve methodology and assumptions prior to product launch;*
2. *Review tax reserve to statutory reserve ratios and trends periodically;*
3. *Create tax reserve documentation for audit purposes; and,*
4. *IRS audit support on actuarial issues.*

	Life	**Annuity**	**Health**
Responsible	33%	41%	25%
Consulted	12	10	17
Informed	17	10	13
Not involved	38	40	56
Who else is involved in addition to the tax actuary?			
Other actuaries	52%	47%	48%
Accountants	28	30	31
Lawyers	9	7	11

Table 2

Monitor the progress of new or proposed actuarial regulatory guidance and its tax impacts.

	Life	**Annuity**	**Health**
Responsible	42%	48%	21%
Consulted	29	10	21
Informed	16	13	16
Not involved	13	29	42
Who else is involved in addition to the tax actuary?			
Other actuaries	49%	50%	43%
Accountants	24	29	30
Lawyers	18	11	17

continued 26

from pg. 25

Table 3			
Project results of planning initiatives dealing with pending new guidance and what approach to take.			
	Life	**Annuity**	**Health**
Responsible	22%	16%	0%
Consulted	35	29	42
Informed	19	19	21
Not involved	24	35	37
Who else is involved in addition to the tax actuary?			
Other actuaries	41%	37%	41%
Accountants	33	34	41
Lawyers	16	13	11

Many tax actuaries are consulted in creating or assessing capital efficient ideas, although almost half have no involvement. The other individuals involved with capital efficient ideas are other actuaries and accountants (see Tables 2 and 3).

Most tax actuaries are not involved with writing opinion letters and very few have any responsibility with them. Other actuaries, accountants and lawyers (split evenly) generally write the opinion letters.

Non-Product Specific Involvement

The survey requested additional information on the tax actuary's level of involvement in a variety of non-product specific areas (see Table 4). The tax actuary was responsible for the work more than 30 percent of the time in only three of these areas (reserves for tax return preparation, guidance on section 7702/7702A, and general pension tax issues). The tax actuary was consulted more than 30 percent of the time in five more of the 16 areas. However, the tax actuary was not involved more than 40 percent of the time in 14 of the 16 areas. Tax actuaries might need to make others in their organizations aware that they are available to add expertise in these areas. This might imply that there is significant room for expansion of the tax actuary, in his role as an expert in tax actuarial matters.

Table 4

	Responsible	**Consulted**	**Informed**	**Not informed**
Tax return preparation: Reserves and reserve related items	32%	18%	9%	41%
Tax return preparation: Other than reserves and reserve related items	6	15	12	67
Tax return review	9	9	15	67
Dividends received deduction issues	6	15	18	61
Life/non-life consolidation issues	0	13	22	66
Review of business combinations and mergers	0	38	13	50
Review of reinsurance transactions	13	41	6	41
Calculate DTA/DTL for GAAP	3	6	26	65
Calculate DTA/DTL for Statutory	3	25	22	50
Determination of GAAP valuation allowances	7	7	13	73
Determination of tax payment cushions	6	16	13	65
Provide guidance on section 7702/7702A (life insurance)	47	26	9	18
Provide guidance on section 72, 1031, 1035 (annuities)	16	31	13	41
General IRS audit support	3	33	18	45
General property/casualty tax issues	0	7	10	83
General pension tax issues	53	41	3	3

Conclusion

The survey provides a wealth of information, which will take awhile to fully analyze. As we continue this analysis, we will share the results via the Taxation Section Web page or future articles in *Taxing Times*. From the analysis done so far, the survey shows that there is opportunity to expand the role of the tax actuary within companies and possibly to get more formal positions created throughout the industry. There are many insurance company taxation areas where a knowledgeable actuary can add value.

The survey also highlights areas where the Taxation Section can provide additional value to its members. Through the newsletter, Web page, and seminars, the section can provide educational opportunities for tax actuaries as well as provide information for expanding their role. Tax actuaries are few in number. Meetings and seminars can provide networking opportunities for actuaries to interact and learn from their peers. This survey showed just how much opportunity exists for this important knowledge exchange.

Steven C. Chamberlin, FSA, MAAA, is an appointed actuary with AEGON USA Inc. He may be reached at *chamber@aegonusa.com*.

Kory J. Olson, FSA, MAAA, CFA, is an actuary with Allstate Insurance Company. He can may be reached at *kolson@allstate.com*.

"Federal Income Taxation of Life Insurance Companies" Seminar

The Taxation Section of the SOA and KPMG will be offering a 1 1/2 day seminar entitled "Federal Income Taxation of Life Insurance Companies" in Orlando, Fla. from Sept, 20-21, 2005 prior to the SOA Valuation Actuary Symposium. This seminar is intended to provide actuaries with an understanding of the general tax rules applicable to their companies. Seminar topics include:

- Basic Concepts in Life Insurance Company Taxation
- Definition of a Life Insurance Company
- Premium Income
- Investment Income and Capital Gains
- Policyholder Dividends and Differential Earnings Rate
- Proration of Tax Exempt Interest and the Dividends Received Deduction
- Small Life Insurance Company Deduction
- Policyholder Surplus Account
- Reserves
- Death Benefits and Discounting of Claim Reserves
- Policy Acquisition Expenses
- Reinsurance
- Separate Accounts
- Life/Non-life Consolidated Returns
- Statutory Accounting for Income Taxes
- Policyholder Taxation

It's not too late to register. For more information, visit the SOA Web site at *www.soa.org*.