



SOCIETY OF ACTUARIES

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ACTUARIES INVOLVEMENT IN TAX

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The Taxation Section of the Society of Actuaries recently conducted a survey of its members to get a better understanding of how actuaries are being utilized in areas where tax plays a role within the insurance industry. Members were asked about their personal involvement with tax in various capacities. In addition, the survey inquired about the use of other internal actuaries and the reliance on outside assistance for the various tax functions. Thank you to all 115 members who took the time to provide responses to this survey.

It should come as no surprise that the majority of the respondents were actuaries working for insurance companies (over 80 percent), and of the respondents that were not actuaries, the majority (80 percent) were either accountants or lawyers, consistent with the Taxation Section membership.

There was a fairly even distribution of responses across company size, and only 20 percent of insurance company responses said they have a formal “Tax Actuary” position. The prevalence of a “Tax Actuary” role within the insurance industry is size sensitive as 80 percent of the respondents that had this position were companies with over \$100 billion in assets. These results are little changed from our “*Role of the Tax Actuary*” survey conducted five years ago by Kory Olsen & Steven Chamberlin (September 2005 *TAXING TIMES*).

The current survey also inquired about the existence and background of a formal “Tax Director” role. The results showed that 61 percent of insurance companies have a Tax Director, but only one response claimed the individual was an actuary. Over 75 percent of firms surveyed fill this position with an accountant and most of the remaining firms filled this position with a lawyer.

As expected, actuaries are utilized quite extensively within the traditional area of product design and pricing. It was interesting to see that up to 80 percent of respondents also utilize some level of outside actuarial support for this function (see Table 1). Looking deeper into this result—large companies are less likely to seek this outside help than smaller firms.

TABLE 1

	Product Design	Product Pricing
Personally Responsible/Consulted	59%	57%
Internal Actuaries Responsible/Consulted	87%	90%
Outside Actuarial Support	75%	80%
Outside Actuarial Support (Over 100B)	18%	18%

Actuaries are also deeply involved in tax reserve methods and assumptions, tax reserve to Statutory reserve ratio/trend review, and the documentation of tax reserves for audit purposes (see Table 2). When actuaries did not fill these roles, they were consulted for tax reserve issues on average 25 percent of the time; however it was less likely that outside actuarial support would be sought with regard to tax reserves.

TABLE 2

Tax Reserves:	Documentation for Audit	Ratio/Trend Review vs. STAT	Methodology & Assumptions
Personally Responsible/Consulted	54%	56%	67%
Internal Actuaries Responsible/Consulted	90%	83%	84%
Outside Actuarial Support	13%	25%	21%

Product tax was another area where actuaries had strong involvement—responsible or consulted between 43-76 percent of the time. This area includes guidance on IRC Sec. 7702/7702A for life insurance, guidance on IRC Sec. 72, 1031, & 1035 for annuities, policy administration of IRC Sec. 7702/7702A, and correction programs involving 7702, 7702A, 817(h), etc. (see Table 3 on page 46)

The survey also asked if actuaries are responsible or consulted in writing opinion letters, providing tax litigation support,

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TABLE 3				
Product Tax:	Guidance on 7702/7702A	Policy Admin. of 7702/7702A	Corrections of 7702, 7702A, 817(h)	Guidance on 72, 1031, & 1035
Personally Responsible/Consulted	61%	56%	49%	43%
Internal Actuaries Responsible/Consulted	74%	76%	66%	63%
Outside Actuarial Support	31%	14%	0%	0%
Outside Legal Support	38%	43%	70%	64%

and providing IRS audit support. The results showed that actuaries were involved to an increasing degree for these three areas with the most involvement in audit support. Survey participants were also asked if actuaries were involved in the assessment of the tax impact of regulatory guidance and in projecting planning initiatives for pending new guidance. Respondents were either responsible or consulted up to 84 percent of the time (see Table 4).

Outside actuarial support was not used often for the subject areas in Tables 3 and 4, however the percentage of companies utilizing outside legal assistance is high (up to 72 percent).

This could mask actuarial involvement, as many law firms often engage outside actuarial assistance when needed on behalf of their clients as opposed to insurance companies hiring them directly.

Several questions focused on financial reporting functions. Actuaries responded that they were much more likely to be consulted with regard to these tasks, as opposed to being responsible for them. Financial reporting functions were unlikely to be handled by outside actuarial support. The write in responses for “Other Support” provided evidence that Internal Accountants were predominantly responsible for these functions (see Table 5 on next page).

TABLE 4				
Legal/Regulatory:	Personally Responsible/ Consulted	Internal Actuaries Responsible/ Consulted	Outside Actuarial Support	Outside Legal Support
Opinion letters (including formal cites)	37%	47%	8%	58%
Tax Litigation support	37%	65%	11%	72%
IRS Audit support on actuarial issues	60%	86%	15%	46%
Assessment of the tax impact of regulatory guidance (new or proposed)	70%	83%	12%	24%
Project planning initiatives for pending new guidance and determining approach to take	57%	84%	31%	31%

TABLE 5

Financial Reporting:	Personally Responsible/ Consulted	Internal Actuaries Responsible/ Consulted	Outside Actuarial Support	Other Support
Reporting & Withholding	15%	18%	0%	73%
Life/Non-Life consolidation	10%	20%	0%	83%
Tax Return Review	17%	24%	0%	58%
Premium and other State Taxes	7%	26%	0%	89%
Dividends Received Deduction	21%	42%	10%	50%
Tax Return Preparation	35%	43%	7%	53%
Valuation allowances	15%	47%	14%	71%
Calculation of GAAP DTA/DTL	20%	53%	0%	75%
Calculation of STAT DTA/DTL	30%	56%	0%	70%

TABLE 6

	Personally Responsible/ Consulted	Internal Actuaries Responsible/ Consulted	Outside Actuarial Support	Other Support
Advanced Underwriting	13%	52%	0%	80%
Corporate Structure	19%	42%	0%	50%
Investment Management	24%	69%	0%	75%
Tax Planning	40%	66%	7%	50%
Mergers & Acquisitions	39%	72%	31%	23%
Capital Management	41%	87%	25%	63%
Reinsurance transactions	65%	83%	20%	80%

The tax functions highlighted in Table 6 also showed a high incidence of “Other Support” responses and further review showed that these roles were often provided by nonactuarial internal resources. Although these tax functions all had high percentages of other support responses, they also had a respectable level of involvement from the actuarial profession (see Table 6 above).

Pension and health tax issues were also areas covered by the survey. These areas showed moderate involvement by actuar-

ies (16-34 percent) and outside actuarial support (11-20 percent), but were much more likely to use internal accountants.

Actuaries surveyed had limited involvement in Property & Casualty tax issues. With the majority of actuaries responding to the survey being from life and annuity, health, and pension companies, these results are not surprising.

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CONCLUSIONS

The survey provides a wealth of information that can be looked at from many perspectives. The results show a fair amount of involvement from the actuarial community in tax matters. Areas with strong actuarial involvement not surprisingly include product pricing, product design, product tax, tax reserves and legal/regulatory areas.

The survey highlights plenty of areas where the Taxation Section can look to better serve its membership, and as the section council continues to review the survey results, additional opportunities to educate membership will no doubt be highlighted. ◀

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