



Article from

Taxing Times

Month Year June 2015
Issue Number 2



ACLI UPDATE

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The National Commissioners Association of Insurance Commissioners (NAIC) approved the 2012 Individual Annuity Reserve table (2012 IAR Table, or the Table) as the standard for computing reserves for individual annuity contracts and developed a model regulation (NAIC Model 821) for states to adopt. The Table introduces the use of a generational structure (which generally calculates different life expectancies based on year of birth) into the computation of individual annuity reserves. The 2012 IAR Table generally will result in higher reserves, making it more expensive for a company to write payout annuities when the Table is required for use by the company's domestic state.

Subsequently, the states began to adopt the 2012 IAR Table through regulations that permit the use of the Table for computing reserves for individual annuity contracts, effective Jan. 1, 2015. On Dec. 24, 2014, the total number of states that had adopted the 2012 IAR Table as the reserve standard for future new immediate annuity contracts as defined in NAIC Model 821 reached the threshold of 26 required by section 807(d)(5)(A) of the Internal Revenue Code (the Code).

On February 17, ACLI submitted a letter to Alexis MacIvor, chief of the Insurance Branch in the IRS Office of Chief Counsel, notifying her that as of Dec. 24, 2014, 26 states had approved the 2012 IAR Table as the reserve standard for immediate annuity contracts issued on or after Jan. 1, 2015. The letter thus confirms that the 2012 IAR Table is the Prevailing Commissioners' Standard Table for purposes of computing life insurance reserves under section 807(d) of the Code for individual annuity contracts.

Section 807(d)(5)(B) of the Code permits insurers to use the preceding prevailing tables for a three-year transition period, after which the use of the new prevailing tables becomes mandatory for computing life insurance reserves. The use of the 2012 IAR Table will thus become mandatory for new business issued on or after Jan. 1, 2018. ◀