



SOCIETY OF ACTUARIES

Article from:

Taxing Times

October 2012 – Volume 8 Issue 3

Taxing TIMES

2012 SECTION LEADERSHIP

Chairperson

Kristin A. Schaefer, FSA, MAAA

Vice Chairperson

Mary Elizabeth Caramagno, FSA, MAAA

Secretary/Treasurer

Daniel Theodore, FSA, MAAA

Council Members

Ame R. T. Biggart, FSA, MAAA

Stephanie Burmester, ASA, MAAA

Ann M. Delaney, ASA, MAAA

Brenna Gardino, ASA, MAAA

Samantha Knackmuhs, FSA, MAAA

Carol Meyer, FSA, MAAA

Board Partner

Larry Bruning, FSA, MAAA

NEWSLETTER STAFF

Editor

Christian J. DesRochers

Associate Editors

Brian G. King

Frederic J. Gelfond

Kristin Norberg

Gregory Stephenson

Assistant Editors

Ranae D'Amato

Preeti Parasharami

Editorial Board

John T. Adney

Samuel A. Mitchell

Kory J. Olsen

Arthur Schneider

Bruce D. Schobel

Daniel Stringham

SOA STAFF

Jacque Kirkwood

Staff Editor

e: jkirkwood@soa.org

Christy Cook

Lead Section Specialist

e: ccook@soa.org

Meg Weber

Staff Partner

e: mweber@soa.org

Julissa Sweeney

Graphic Designer

e: jsweeney@soa.org

Published by the Taxation Section Council of the Society of Actuaries

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 Taxation Section Web page at <http://www.soa.org/tax>.

This publication is provided for informational and educational purposes only. The Society of Actuaries makes no endorsement, representation or guarantee with regard to any content, and disclaims 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.

© 2012 Society of Actuaries. All rights reserved.

FROM THE EDITOR TO OUR READERS

By Christian DesRochers

Welcome to the current issue of *TAXING TIMES*. I would like to highlight a couple of the articles. The first is an article by Craig Pichette and Ed Robbins on deferred tax accounting. In part, because of the treatment of life insurance reserves and the section 848 DAC, the life insurance industry has significant DTAs, or deferred tax assets. As the authors point out, admitted DTAs account for approximately 12 percent of life industry surplus. Consequently, some knowledge of the development of deferred tax accounting is helpful in understanding the economics of the life insurance industry. In addition, deferred tax accounting is becoming more widely used in modeling blocks of life insurance business for both appraisals and asset adequacy analysis.

The second article is Peter Winslow's discussion of the *American Financial* case. As Peter notes, in *American Financial Group et al. v. United States*, the Sixth Circuit affirmed a district court decision that an insurance company in computing its tax reserves for annuity contracts under IRC Section 807 could apply retroactively Actuarial Guideline 33. The court found that the actuarial guideline applied to the existing annuity contracts as a clarification of the requirements that existed when the contracts were issued. *American Financial* is another element of the mosaic of emerging issues related to the treatment of tax reserves which is creating issues for both the industry and the government. When the current section 807 was written in 1984, traditional reserve methods were dominant. That is, the assumptions underlying life insurance reserves were set at issue and generally did not change over the life of the policy. Changes in mortality tables were infrequent, principally because they required a change in statute or regulation to implement. Only a handful of actuarial guidelines existed, and generally dealt with technical clarifications to the valuation law. In addition, reserves were set on an individual policy basis. These concepts were incorporated into the Internal Revenue Code through the concept of federally prescribed reserves.

Now we are faced with increasingly complex reserve standards, which include stochastic elements which can change annually based on changes in economic conditions. Many valuation tables are promulgated through actuarial guidelines. The effect of codification on the concept of prevailing mortality tables has never been fully clarified, and we are now seeing the emergence of principle-based reserves, bringing with it the potential of reserve standards that will vary by company. All of these elements make it more and more difficult to accommodate the emerging reserve standards with the existing structure of federally prescribed reserves. This creates challenges for both the insurance industry and the Treasury and IRS to find ways to fit emerging reserve standards into section 807.

Thanks to the efforts of a number of authors, we at *TAXING TIMES* have been active participants in providing timely articles on this emerging issue. As reserves continue to evolve, this will be a topic that will create additional challenges for industry and government, and one which we will continue to provide informed commentary on in future issues.

As always, I'd like to thank all of the authors and support staff who worked on the issue. Without their support, *TAXING TIMES* would not be possible, and we appreciate their efforts. ◀

Christian DesRochers, FSA, MAAA, is an executive director, Insurance and Actuarial Advisory Services, with Ernst & Young LLP and may be reached at Chris.DesRochers@ey.com.

In Memory of
CHRISTINE DEL VAGLIO

It is with great sadness that we report the passing of **Christine Del Vaglio** on Aug. 10, 2012, after a valiant battle with pancreatic cancer. Until recently, Christine served as the assistant editor of *TAXING TIMES* beginning with our first issue in May 2005. Her dedication contributed immeasurably to the success of our publication. On behalf of the editorial staff, we would like to extend our deepest sympathy to her husband Dave, and sons Nicholas and Zachary.



Chris and Brian

