Article from

**Taxing Times**

March 2016
Volume 12
Issue 1

# ACLI Update

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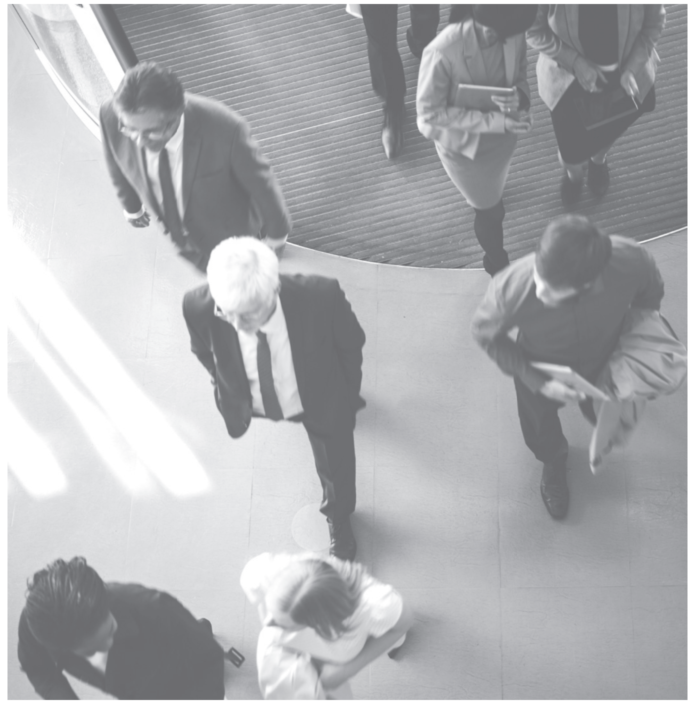

## BLANKS

In July, ACLI submitted comments to the National Association of Insurance Commissioners (NAIC) PBR Review Working Group ("Working Group") on the exposed changes to the Annual Statement Blanks to accommodate principle-based reserves. The comments were focused on Exhibit 5, the Aggregate Reserve for Life Contracts. ACLI requested the entire VM-20 reserve be reported in the Life Insurance section rather than have the Excess of the VM-20 Deterministic/Stochastic Reserve over the Net Premium Reserve be reported in the Miscellaneous Reserves section. ACLI agreed that reporting of the Net Premium Reserve portion should continue as a separate line in order to allow for a clear connection between that reserve as reported in the Life Insurance section and the "Analysis of Increase in Reserves During the Year."

At its November meeting, the Working Group made the changes to Exhibit 5 we requested and exposed until Dec. 18 the revised recommended changes. It is anticipated that if there are no substantive changes to the exposure, the Working Group will adopt the draft and send it to the Blanks Working Group for implementation. This change does not need to be formally adopted by the NAIC for annual statement purposes until 2017 blanks are finalized.

## PBR GUIDANCE

On July 31, the 2015–2016 Internal Revenue Service (IRS) Priority Guidance Plan was updated to include life PBR. On Sept. 23, ACLI submitted a letter that thanked the IRS and Treasury for including life PBR on the Priority Guidance Plan, welcomed the inclusion of the treatment of stochastic reserves under section 807 of the Internal Revenue Code, and noted it was essential that the government take a fresh look at the interim guidance on Actuarial Guideline (AG) 43 in Notice 2010-29.

The letter identified three categories of issues for guidance: (1) substantive reserve guidance, (2) product qualification guidance, and (3) reserve transition guidance. These categories were described briefly, and the industry requested detailed discussion with the IRS on all guidance issues. Product qualification guidance was singled out as the most time-sensitive set of issues due to the lead time needed to design products, secure state approvals and design systems.

## UPDATE ON TAX REFORM

ACLI staff and member company representatives met on June 5 with Ways & Means (W&M) and Joint Tax Committee (JCT) staffs, and on July 24 with Senate Finance Committee (SFC) and JCT staffs regarding life insurance company taxation and tax reform. ACLI has been pursuing ongoing dialogue with W&M, SFC and JCT staffs on areas of interest that were identified in the June 5 and July 24 briefings, including reserves vs. capital, tax reserve discount rates, and a Milliman report on the tax capitalization of commissions.

While it remains unlikely that broad-based reform will be enacted before 2017, Speaker Paul Ryan and the incoming W&M chair may pursue business and/or international tax reform before that time, perhaps to address the growing problem of corporate inversions. ACLI will continue to closely monitor any congressional activity to best address member company interests.

## VARIABLE ANNUITIES FRAMEWORK FOR CHANGE

At the 2015 NAIC Spring National Meeting, the Variable Annuities Issues (E) Working Group (VAIWG) was formed and given the charge to "oversee the NAIC's efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions."

Oliver Wyman was engaged by the NAIC to serve as a consultant to assist the VAIWG in meeting their charge and, in September, delivered a report of observations and recommendations. The Oliver Wyman report made five sets of recommendations for improvement, which include: 1) Align economically focused hedge assets with liability valuations;

2) Reform Standard Scenarios (AG43 and C3P2);

3) Align Total Asset Requirement (TAR) and reserves;

4) Revise asset admissibility for derivatives and deferred tax assets (DTAs); and

5) Standardize capital markets assumptions.

VAIWG adopted, by exposing a variable annuity framework, the numerous changes proposed by Oliver Wyman in order to encourage strong risk management within the insurance companies and to remove the need to reinsure variable annuity business to captive reinsurers. The ACLI submitted a comment letter to VAIWG in response to the exposed framework making recommendations for improvement.

The determination of the exact changes to the statutory accounting requirements for variable annuities will be based in large part upon a quantitative impact study (QIS) performed by Oliver Wyman in cooperation with the companies who write variable annuity business. The QIS will be conducted from February through July 2016. The initial recommendations made by Oliver Wyman are intended to be used as a guide in the likely direction of the changes to the statutory requirements and in the design of the changes that will be tested in the QIS. It is possible that other solutions may be identified during and after the QIS that could ultimately be incorporated into the final changes to statutory requirements.

Tax implications will likely result from any changes to the standard scenario, hedge accounting treatment in the reserves, or admissibility of DTAs that may emerge from the QIS and ultimately be incorporated into statutory accounting requirements by the NAIC.

## PENSION DE-RISKING—ERISA ADVISORY COUNCIL

One of the ERISA Advisory Council's (EAC) 2015 study topics was Model Notices and Disclosures for Pension Risk Transfers. In 2013, the EAC conducted a comprehensive study of the risk transfer process, and its report included recommendations regarding the information needed by participants involved in risk transfers. The 2015 EAC focused specifically on the information that participants need to make informed decisions when faced with lump sum risk transfers and annuity risk transfers, and best practices for plan sponsors in communicating that information. In August 2015, the EAC made available two "draft" model notices, one for lump sum payments and one for annuity transfers. ACLI provided comments on the annuity transfer notice, which is intended to be provided to plan participants and beneficiaries prior to the transfer of pension plan payment liabilities to an insurance company. The comment letter expressed concern that the notice will both confuse participants and cause unnecessary anxiety about whether plan benefit payments will continue from the insurance company selected by the employer sponsoring the plan. Additionally, the letter questions the utility of such a notice—either where there is no action that may be taken by the participant subsequent to the transfer, or where the participant is offered a lump sum option.

In November 2015, the EAC concluded its work and presented the Department of Labor (DOL) with its recommendations and proposed notices ("Lump Sum," "Risk Transfer"). ACLI plans to engage the DOL on our concerns with the de-risking notice when the EAC's report is officially submitted to the DOL. ■

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