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Taxation Section Webcast: “Federal Income Tax Issues Every Company Must Consider under Life PBR”

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On June 10, 2016, the Taxation Section hosted a webcast entitled “Federal Income Tax Issues Every Company Must Consider under Life PBR.” Panelists Kristin R. Norberg, Mark S. Smith, and Peter H. Winslow led the audience through an exploration of the many potential tax issues and areas of interpretation that will arise once principle-based reserves (PBR) becomes the new statutory financial reporting regime for life insurance contracts.

The webcast had a great turn-out, with approximately 120 sites registered and well over 900 participants. Three-quarters of respondents to the polling questions identified as actuaries who are not primarily focused on tax. This was by far the largest audience the Taxation Section has attracted for a webcast, which is indicative of the importance of this topic as the industry marches ever closer to the operative date for Life PBR.

After a brief update on the state adoption status and an introduction to past guidance from the Internal Revenue Service (IRS), the panelists explored topics in the following categories:

- **Policyholder tax compliance**—relating to the concurrent adoption of the 2017 Commissioners’ Standard Ordinary Mortality Tables.
- **Transition rules**—including the initial three-year transition, the small company and single-state exemptions, and issues for companies domiciled in states that have not yet adopted PBR.
- **The three components of PBR**—the net premium, deterministic, and stochastic reserve components, addressing the inclusion of each component in the federally prescribed reserve and the statutory cap, as well as approaches for meeting the interest and mortality requirements and the other computational rules of Internal Revenue Code section 807(d).



Within each category of topics, the panelists first explained the relevant requirements in the NAIC’s Valuation Manual, the rules in the Internal Revenue Code, and any available guidance from the IRS, then continued with an open discussion of the interpretational challenges and potential ways to approach each tax compliance issue. Additionally, the panelists provided a reference to the many informative articles and dialogues that have been published in *TAXING TIMES* throughout the newsletter’s history (see sidebar).

CONTINUING PBR ADOPTION ACTIVITY

Later on the day of the webcast, the NAIC Joint Executive (EX) Committee and Plenary approved the recommendation of the Principle-Based Reserving Implementation (EX) Task Force that the legislation enacted in 45 states met the “substantially similar terms and provisions” threshold in the Standard Valuation Law, leading to an operative date of Jan. 1, 2017. At the date of this writing, 46 states, representing over 85 percent of relevant industry premium, had enacted a new version of the Standard Valuation Law to enable PBR, and legislation is progressing through the Massachusetts legislature. Additionally, the New York Department of Financial Services (DFS) Superintendent Maria T. Vullo announced on

July 6, 2016 that the DFS would adopt PBR, likely with some New York-specific guidelines and safeguards, beginning January 2018.¹ The future of life insurance reserving is here, and it is incumbent on the actuarial and tax professionals in insurance companies to work together to be ready to comply with the new regime for tax purposes as well as for statutory financial reporting. We hope this webcast helped companies along this journey by identifying key issues where each company will need to develop and document its tax interpretations.

If you missed the webcast, you can purchase a recording on the SOA website, <https://www.soa.org/professional-development/archive/webcast-recordings.aspx>. ■

ENDNOTES

¹ <http://www.dfs.ny.gov/about/press/pr1607061.htm> (accessed 8/5/2016).

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ARTICLES ON PBR IN PAST ISSUES OF *TAXING TIMES*

Joseph F. McKeever, III, John T. Adney and Lori A. Robbins, "The Federal Income Tax Consequences of Adopting a Principles-Based Life Insurance Reserve System," 1 *TAXING TIMES*, Vol. 2, Issue 1 (May 2006)

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Kory J. Olsen, "Tax Implications of Applying Principles-Based Reserves Retroactively," 12 *TAXING TIMES*, Vol. 2, Issue 1 (May 2006)

Edward L. Robbins and Peter H. Winslow, "Actuary/Tax Attorney Dialogue on Selected Tax Issues in Principles-Based Reserves Subject to CRVM," 1 *TAXING TIMES*, Vol. 3, Issue 1 (February 2007)

Christian DesRochers and Peter H. Winslow, "Actuary/Tax Attorney Dialogue on Selected Tax Issues in Principles-Based Reserves (Part II)," 1 *TAXING TIMES*, Vol. 3, Issue 2 (May 2007)

Christian DesRochers, "Tax Uncertainty Swirls Around Principles-Based Reserves," 15 *TAXING TIMES*, Vol. 3, Issue 3 (September 2007)

Edward L. Robbins, "Calculation of Tax Expense in a Principles-Based Reserves Environment," 24 *TAXING TIMES*, Vol. 4, Issue 1 (February 2008)

Peter H. Winslow, Christian DesRochers and Edward L. Robbins, "Tax Attorney and Tax Actuary Dialogue on IRS Notice 2008-18—AG VACARVM and Life PBR (Part III)," 1 *TAXING TIMES*, Supplement (March 2008)

Peter H. Winslow, "The Tax Reserve Method Should Be PBR Once It Is Adopted by the NAIC," 24 *TAXING TIMES*, Vol. 4, Issue 3 (September 2008)

Christian DesRochers, Mark S. Smith and Peter H. Winslow, "Actuary/Tax Attorney Dialogue on Selected Tax Issues in Principle-Based Reserves (Part IV)," 46 *TAXING TIMES*, Vol. 9, Issue 1 (February 2013)

Peter H. Winslow, "Options for Inclusion of Stochastic Reserves in Federally-Prescribed Reserves," 21 *TAXING TIMES*, Vol. 12, Issue 1 (March 2016)

Peter H. Winslow, "VM-20 Deterministic Reserves in Federally-Prescribed Reserves," 26 *TAXING TIMES*, Vol. 12, Issue 2 (June 2016)