SOCIETY OF ACTUARIES

Article from
Financial Reporter
December 2017
Issue 110

Synopsis of Issue Brief

Claim Reserve Assumption Basis for Long-Term Disability Policies: Use of Date of Incurral Versus Date of Issue

By the Tax Work Group of the American Academy of Actuaries, Barbara Gold, Chairperson

During the past few years, the Tax Work Group of the American Academy of Actuaries (the Academy) has addressed the question of when interest rate assumptions might be determined in the calculation of tax reserves for Long-Term Disability (LTD) claims incurred. The result of this analysis is an issue brief, recently published by the Academy, titled "Claim Reserve Assumption Basis for Long-Term Disability Policies: Use of Date of Incurral Versus Date of Issue."

The issue brief describes the products and reserves under consideration, explores the historical context of the statutory and tax rules, and analyzes the actuarial considerations relevant to the choice of an appropriate interest rate. It discusses the potential rationale for determining the incurred claim reserve discount rate either as of the date of claim incurral or as of the date the policy was issued. In the issue brief, the Tax Work Group concludes that setting the discount rate using the incurral date, rather than the issue date, is an actuarially sound basis for the valuation of group and individual LTD tax claim reserves, and it is also consistent with statutory accounting rules. The issue brief may be accessed at *www.actuary.org/files/publications/Acad_taxwg_brief_LTD_072817.pdf.* ■

Barbara Gold, FSA, MAAA, is chairperson of the Tax Work Group of the Life Practice Council of the American Academy of Actuaries and may be reached at *brg10@optonline.net.*