

*Changes as a Result of 1959 Federal Income Tax Law*

What changes in connection with accident and sickness insurance have been made or may be expected as a result of the 1959 Federal Income Tax Law?

MR. WILLIAM E. LEWIS described various aspects of the 1959 Federal Income Tax Law and the effects it might be expected to have on accident and sickness insurance. He pointed out that each company's tax position with respect to accident and sickness insurance depends on its over-all company operation, not on its accident and sickness experience alone. As a result, some companies are taxed on their investment income, others on their underwriting income and still others on a combination of the two. Because of the exclusion in Phase I of the policyholders' share of the investment yield, the tax with respect to noncancelable or guaranteed renewable policies is lower than that for commercial policies. Recognizing the possibility of some companies' shifting from commercial to noncancelable or guaranteed renewable in order to secure this tax advantage, Mr. Lewis made a few observations pertaining to such a change. The company could expect an increase in its claim cost, the amount of which would depend on the degree of severity with which the company has been underwriting its commercial business on renewal. An increase in reserves would be required, and, as reported by Mr. Lewis, the consensus was that this would *not* be regarded as a "change in reserve basis," and that the full increase in reserve could therefore be used as a deduction in the Phase II tax computation.

A decision to change the method of valuation from preliminary term to net level premium focuses attention on the fact that the formula provided for the "approximate method" (\$21 per thousand of insurance in force less 2.1% of reserves) is not appropriate for accident and sickness insurance since "amount of insurance in force" has no clearly defined meaning for this type of coverage. It was hoped that the Treasury Department would permit a company to use an exact revaluation for its accident and sickness business even though the approximate method is used for other business.