AMERICAN ACADEMY *of* ACTUARIES

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August 31, 2017

Subject: The Importance of an Actuarial Perspective in Tax Reform Discussions

Dear Senator/Representative:

As Congress moves to consider the issue of tax reform, it is important to consider the potential implications for insurance, pension plans, and other critical protections relied upon by American families and businesses. At the foundation of each of these offerings is a set of complex actuarial issues. If changes are made without a full understanding of these issues, there is a significant risk of unintended consequences. Because the U.S. tax code is deeply interwoven with how individuals, employers, and financial providers behave and interact with regard to the delivery of these services, the American Academy of Actuaries[1] believes that it will be especially helpful for policymakers to evaluate potential reforms from an actuarial perspective.

Employee health and pension benefits, annuities and life insurance, and property/casualty lines of insurance are all interconnected with and affected by the U.S. tax code. Tax treatment of insurance and pension benefits can have significant effects on their affordability, accessibility, and reliability. For example, tax treatment under the current code may induce employers to sponsor, and take on a majority of costs for, employee health and pension benefits. In addition, the tax treatment of certain individual insurance services can affect the availability of insurance offerings or the ultimate costs faced by policyholders.

These tax treatments, in turn, can have significant implications for federal revenues and expenditures, as well as broader economic effects, such as on gross domestic product (GDP) and national savings. For example, because insurance companies themselves are purchasers of corporate debt, changes to tax treatments of insurance could have significant effects on capital markets. Similarly, because tax policies can encourage individuals to self-fund their risks, revisions to these policies could have significant implications for social insurance programs.

A broad revision of the tax code could therefore not only have significant effects on income and business taxes, but on the insurance and pension benefits Americans rely upon to protect against risk and ensure economic security as well. Consequently, it is especially important for policymakers undertaking a reform of the tax code to carefully consider how these reforms will affect insurance, retirement benefits, employers, consumers, businesses, and insurers themselves. Given the complexities and nuances of both the U.S. tax code and our nation's insurance and retirement systems, nonpartisan, impartial, and expert advice on these issues is essential.

[1] The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

As managers of risk, actuaries are deeply familiar with insurance, as well as health and pension benefits. As such, they are uniquely suited to understand and evaluate the potential implications of tax reforms for insurance offerings, as well as for broader corporate and individual income taxes.

The Academy believes that an actuarial viewpoint will be especially helpful to policymakers in this regard. In keeping with its long tradition of providing policymakers with objective and expert actuarial advice, the Academy offers its support to members of Congress as they address this important issue.

We appreciate the opportunity to make ourselves available to you and your staff at your convenience. If you have any questions or would like to discuss further, please contact Craig Hanna, the Academy's director of public policy (202-223-8196, hanna@actuary.org).

Thank you,

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