



AMERICAN ACADEMY of ACTUARIES

June 14, 2011

Mr. Joseph Fritsch  
Chair, NAIC Statutory Accounting Principles Working Group  
National Association of Insurance Commissioners  
2301 McGee Street, Suite 800  
Kansas City, MO 64108-2662

Dear Mr. Fritsch:

It has come to our attention that a portion of the Academy's<sup>1</sup> report on RBC for DTA (dated December 13, 2010) may need additional clarification. The pertinent portion of the report starts at the bottom of page 15 and continues onto page 16. That portion of the report is reproduced directly below in italics:

<i>2009 Total DTA / Total Surplus (P&amp;C Companies)</i>				
<i>Capitalization (as a % of ACL)</i>	<i># Cos</i>	<i>Admitted</i>	<i>Non-Admitted</i>	<i>Total DTA</i>
<i>Below 100%</i>	<i>34</i>	<i>0.8%</i>	<i>166.5%</i>	<i>167.2%</i>
<i>100% to 200%</i>	<i>29</i>	<i>3.9%</i>	<i>25.9%</i>	<i>29.9%</i>
<i>200% to 300%</i>	<i>100</i>	<i>3.0%</i>	<i>23.7%</i>	<i>26.6%</i>
<i>Over 300%</i>	<i>2385</i>	<i>4.5%</i>	<i>2.7%</i>	<i>7.2%</i>

*Source: SNL Financial*

*While the figures are somewhat different [than those shown in the previous table<sup>2</sup>], the general conclusions are the same. It would appear that weaker P&C companies have significantly higher DTAs than stronger companies. This would appear to confirm that P&C companies with weaker capital positions, perhaps because of operating or capital losses generating DTAs, would have a more material reliance on the DTA if it were fully admitted.*

The conclusion that can be drawn from the table reproduced above is this: Weaker P&C companies have significantly higher total DTAs as a percent of surplus than stronger companies and would have a greater reliance on DTAs *if all of those total DTAs were admitted*. But the table also shows that the vast majority of those DTAs will not be admitted. For those companies with RBC ratios under 100%, over 99% of DTAs were not admissible under SSAP 10R. For companies between 100% and 200%, the portion that could not be admitted was over 86%. As a

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<sup>1</sup> The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

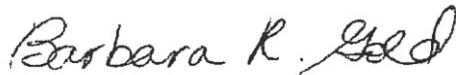
<sup>2</sup> The table reproduced above from the report summed up the total DTA (admitted and non-admitted for those companies in the given category of capitalization and divided that sum by the total surplus for those same companies. The prior table showed the average of the DTA as a percentage of surplus, treating all P&C companies equally, regardless of size for each level of capitalization.

result, for companies with low RBC ratios, the total DTA can be a large portion of surplus but there is little financial risk associated with that DTA because very little of it will be admitted.

As a result, the risk of not realizing the admitted DTA is small, which is the principal reason we recommended no change in the RBC formula for the DTA should current (or substantially similar) statutory admissibility caps be retained.

We included that table in the report to show that the current admissibility limits constrain the portion of the total DTA that can be admitted; not to recommend an additional limit.

Sincerely,



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Co-Chair, Deferred Tax Asset Work Group  
American Academy of Actuaries



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CC: Lou Felice, Chair, NAIC Capital Adequacy Task Force

CC: John Tittle, NAIC

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CC: Julie Gann, NAIC

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