

## Life and Health Actuarial Task Force Amendment Proposal Form\*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Barbara R. Gold, chairperson, American Academy of Actuaries Tax Work Group  
John MacBain, chairperson, American Academy of Actuaries Nonforfeiture Improvement Work Group

Transition period for new Commissioners' Standard Mortality Tables

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-20: Requirements for Principle-Based Reserves for Life Products  
Draft: 10/6/11  
Section 3.C.1.b.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

Section 3.C.1.b.

**Guidance Note:** The valuation manual can be updated by the NAIC to define a new valuation table. Because of the various implications to systems, form filings, and related issues (such as product tax issues), lead time is needed to implement new requirements without market disruption. It is recommended that this transition be for a period of about 4.5 years – that is, that the table be adopted by July 1 of a given year, that it be permitted to be used starting January 1 of the second following calendar year, that it be optional until January 1 of the fifth<sup>th</sup> following calendar year, thereafter mandatory. It is further intended that the adoption of such tables would apply to all business issues since the adoption of this valuation manual. The details of how to implement any unlocking of mortality tables needs to be addressed in the future.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

The new process of adopting mortality tables through the Valuation Manual will result in a new mortality table being recognized for tax purposes much more rapidly than under the current process. We are recommending that a guidance note provide a transition period that will accommodate the current tax rules.

When a new commissioners' standard mortality table has been adopted by at least 26 States, it becomes a "prevailing" table for tax purposes. Internal Revenue Code (IRC) Section 807(d) specifies a full three calendar year transition rule before such a new table must be used to determine tax deductible reserves. IRC Sections 7702 and 7702A, which govern the policyholder tax implications of life insurance products, provide for tests and limitations that are based on a standard of reasonable mortality that cannot exceed the federal prevailing mortality assumption as defined in IRC Section 807(d). It is not clear that the specific three-year transition rule for tax reserves carries over to Sections 7702 and 7702A, and further guidance will be needed from the US Treasury Department and Internal Revenue Service.

Under the new process of adopting mortality tables through the Valuation Manual, it is likely that for tax purposes the table will be considered to have been adopted by 26 states when it is approved for inclusion in the Valuation Manual. This means that by adopting a new commissioners' standard mortality table through the Valuation Manual, it will become prevailing for tax purposes as soon as the Valuation Manual permits its use. As currently drafted, the Valuation Manual would result in a new mortality table becoming prevailing by the end of the calendar year in which the NAIC adopts these tables as part of the Valuation Manual. This will not permit adequate time to resolve product tax issues with the US Treasury Department and Internal Revenue Service.

Thus, we are recommending that the guidance note provide that a new commissioners' standard mortality table first be permitted to be used starting January 1 of the second following calendar year following adoption. This will provide about 1 ½ years between adoption of a new mortality table and the time that it would become prevailing for tax purposes.

We are also recommending that a new commissioners' standard mortality table be optional until January 1 of the fifth following calendar year and thereafter mandatory. This will provide consistent transition periods for statutory and tax reserving.

\* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<b>Notes:</b> 			

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