

---

# ***Financial Services - Insurance Tax Bulletin***

**April 25, 2012**

**ITB 12-18**

## ***SSAP 101 Q1 "To Do" List***

As the reporting date for Q1 statutory quarterly statement draws near, Filers need to disclose, perhaps for the first time, the impact of the change in accounting principle brought about by the NAIC's adoption of SSAP 101.

The estimated surplus impact from the adoption of SSAP 101 is treated as a change in accounting principle, which is disclosed under the provisions of SSAP 3. This impact is determined as the difference between surplus as of December 31, 2011 following SSAP 10R versus January 1, 2012 prepared under SSAP 101. It is only a day, but the change in principle may mean millions.

Filers will need to take stock of the material changes resulting from SSAP 101, which will drive any change to surplus. Sure, there will be the need for revised documentation or disclosures under SSAP 101, but those can wait until later in the year. In a nutshell, there are three key areas of concern:

- Contingent tax liabilities
- Statutory valuation allowance assessment
- Admissibility of adjusted gross DTAs

*Looking for interpretations?* It is worth noting that the NAIC has issued an exposure draft Implementation Guide in the form of a Q&A. Although not final, it appears that most of the guidance is not controversial; consequently, reliance on the guidance for interpretations of the SSAP 101 language is not unreasonable. The one area where there appears to be continued dialogue is related to the application of the DTA - DTL offset provisions of paragraph 11c. See draft Q&A paragraph 4.13 and footnote 14. This guidance is likely to change in some way, so for now, perhaps reliance on the SSAP 101 language is the prudent course of action.

---

**Contingent Tax Liabilities.** SSAP 101 has modified the applicable guidance, SSAP 5R. As modified, the assessment for contingent tax liabilities (federal and foreign income tax) is based upon a more likely than not (MLTN) threshold.

Although SSAP 101 rejects FIN 48, the adoption of revised SSAP 5R provisions looks much like the adoption of FIN 48.

- Scope the pool of significant tax positions - not every tax position merits consideration.
- Identify uncertain positions, those with a loss contingency potential– separate between permanent and temporary (tax contingencies for temporary differences are permitted delayed recognition)
- Assess the likelihood of a loss applying the MLTN threshold, measure loss as appropriate - Keep in mind that the taxing authority is assumed to know what you know.
- Document to ensure completeness of assessment - To properly support the assessment

**Statutory Valuation Allowance Assessment (SVAA).** Although SSAP 10R included the valuation allowance concept, as did SSAP 10 before it, SSAP 101 has included the SFAS 109 language that was previously incorporated only by reference. This change can be seen as strengthening the requirement to perform the assessment such that only the adjusted gross DTA is considered for admissibility. Alone, the inclusion of this language generally should not result in a surplus adjustment. However, the interaction of the SVAA and the third part of the admissibility test, paragraph 11.c. / DTL offset, provides reason for pause. This language suggests that if "scheduling" of DTLs is performed as part of the SVAA, this same "scheduling" should be used to assess the ability to offset DTAs against DTLs.

- Determine if you need to refine documentation based upon a more robust application of the "GAAP" guidance
- Confirm understanding of the impact of recognizing SVA as a direct adjustment to the "column 1" asset value

**Admissibility of Adjusted Gross DTAs.** SSAP 101 retained the basic three part admissibility regime: Carryback, Realization, DTL Offset. What is new is the decoupling of the reversal and realization periods, and the requirement to determine the realization and surplus parameters using current period information. Then there is the lack of "optionality" or the ability to elect parameters, and the new 0-years / 0-percent category for companies which do not meet the surplus requirements to admit the higher DTA amounts.

- Confirm applicable tax law carryback provisions.
- Determine realization parameters by computing the appropriate RBC or other metric. Be certain to use current period information for all elements of the calculation (except for the ACL RBC denominator).
- Revise realization calculations, as necessary. Even companies that applied paragraph 10e under SSAP 101 will have an impact if the admitted DTA was capped by the surplus limitation.
- Revise DTL offset based upon the need to schedule under the SVAA. Also, Management should read closely the 11c language regarding the need, or lack thereof, to "consider reversal patterns."

**How to present the change?** There is no explicit guidance in SSAP 101 related to the information that must be disclosed in the Q1 statement. As noted above, SSAP 3 should be reviewed. Certainly a narrative of some sort is necessary when the effect of adoption is material. Such narrative should succinctly describe the new accounting principle. Next, the dollar impact, if any, on surplus should be stated. Finally, some consideration should be given to the need to present a tax footnote. On the last point, tax footnote, a general rule of thumb is that the footnote is not required unless there is a material impact from the preceding year-end. As with all disclosures, all relevant stakeholders should be consulted to ensure the appropriate level of disclosure.

The following is an ILLUSTRATION. (Look for further guidance as the NAIC finalizes its Q&A document.)

*On November 6, 2011, SSAP No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, was adopted by the NAIC. SSAP No. 101 contains changes to accounting for current and deferred federal and foreign income taxes, effective on January 1, 2012. This guidance provides that the deferred tax asset admissibility guidance is no longer elective, and the reversal and surplus limitation parameters in the admissibility tests are determined based on the risk-based capital level [or other metrics]. It also requires gross deferred tax assets to be reduced by a statutory valuation allowance if it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Finally, the guidance sets a more likely than not threshold for the recording of contingent tax liabilities. The cumulative effect of adopting this pronouncement is [insert amount].*

The following summarizes the impact of adoption.

	<b>1/1/12</b>	<b>12/31/11</b>	<b>Change</b>
<b>Gross DTA</b>	\$XX	\$XXX	\$xx
<b>SVA</b>	(XX)	(xx)	xx
<b>Adjusted Gross DTA</b>	XX	XX	XX
<b>Gross DTL</b>	(xx)	(xx)	xx
<b>Net Admitted DTA/(DTL)</b>	XX	XX	XX
<b>Contingent tax liability -</b>	(xx)	(xx)	xx
<b>Penalty / Interest</b>	(xx)	(xx)	xx
<b>Net impact to surplus Decrease / (Increase)</b>	---	----	xx**

Of course if a Filer wishes to provide additional information, this is also acceptable.

\*\* / The net impact to surplus is the sum of any change in net admitted DTA/(DTL), contingent tax liability, and penalty and interest.

---

A final adoption/disclosure issue relates to the SSAP 10R requirement to separately state the increase in surplus from the elective provision of SSAP 10R, paragraph 10e. Separate reporting of both the change for the year in the surplus roll-forward and the portion of surplus related to the benefit of 10e is no longer required under SSAP 101. Accordingly, as of January 1, 2012, this separate reporting is not required. Mechanically, companies can record this "release" of the aggregate write-in to surplus for special surplus funds from the elective provisions of SSAP 10R in one of two ways: (1) as a decrease to the write-in line and an increase to the cumulative effect of the change in accounting policy or (2) exclude this amount from both totals. Both achieve the same result, what is uncertain is whether the applicable software will cooperate, or indicate a cross-check error.

***For further information, please feel free to contact Anthony DiGilio at (703) 918-4812 or contact your local insurance tax professional.***

***Please visit us at: <http://www.pwc.com/us/insurance/tax>***

This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

SOLICITATION

© 2012 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.