



FINANCIAL SERVICES

- Insurance Tax Bulletin

PRICEWATERHOUSECOOPERS 

Proposed AG VACARVM and Life PBR

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Two reserve methodology projects are underway with the National Association of Insurance Commissioners. Proposed Actuarial Guideline VACARVM (VACARVM) would set forth a new Actuarial Guideline that would constitute CARVM for variable annuities. A proposed principles-based approach for calculating statutory reserves for life insurance (Proposed Life PBR) would take the form of a section of a proposed valuation manual that would be adopted pursuant to a proposed change to the standard valuation law.

These new reserve methodologies raise many questions on how reserves computed in accordance with these proposed requirements would effect the taxation of insurance companies. In response to questions and concerns raised by insurance companies, industry organizations and advisors, the government has issued Notice 2008-18 which identifies areas in which the government has concerns, sets forth the manner in which the government may address the issues in the absence of future legislation, and invites comments on these and other issues.

The Notice reminds taxpayers that tax principles override statutory accounting. The Treasury and IRS indicated that they do not anticipate changes to existing guidance that requires that tax principles override statutory accounting principles in appropriate cases. See, e.g., Section 1.801-4(e) (enumerating reserves and liabilities that do not qualify as life insurance reserves for federal income tax purposes).

The primary issues identified by the Notice (which are described as a "preliminary nonexclusive list") are outlined in the attachment to this Alert.

PwC Observes: The recent progress on VACARVM has been slow. While the current exposed draft still has a 2008 effective date, the effective date could be postponed. The NAIC conducted a survey of 26 companies last spring asking companies to produce projected reserves under the proposed guidance. The NAIC is still reviewing the results, and has not presented them officially. Regulators are waiting for the results of this study to determine if any additional modifications to VACARVM are needed.

While the government has raised many concerns, one overriding concern seems to be the ability of the examiners to audit the CTE under VACARVM and the stochastic reserve under PBR. The government indicates that this may weigh in favor of only recognizing the standard scenario amount under CARVM and the deterministic reserve under PBR.

For additional information please call Anthony DiGilio at (202) 414-1702 or contact your local insurance tax professional. Please visit us at: <http://www.pwc.com/us/insurance/tax>

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