



AMERICAN ACADEMY *of* ACTUARIES

October 25, 2011

Mr. Lou Felice
Chair, Capital Adequacy Task Force
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

RE: Comments on Statement of Statutory Accounting Principles No. 101 - Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10

Dear Mr. Felice,

The Deferred Tax Asset Bridge Group (DTABG) of the American Academy of Actuaries¹ appreciates the opportunity to clarify comments in our September 30, 2010 report (as revised [December 13, 2010](#)) to the Capital Adequacy Task Force relating to the Statement of Statutory Accounting Principles No. 101 - Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10 (the “Exposure Draft”) recently adopted by the Statutory Accounting Principles Working Group.

The Executive Summary of our report states our recommendation, based on SSAP 10R, as:

“The amount of the RBC charge should eliminate the benefit of DTAs in excess of those recoverable from past taxes in calculating an RBC ratio for companies with an Ex-DTA RBC ratio less than 200% of *Authorized Control Level RBC (ACL)* and should be floored at 0% or 1%, depending on the admissibility limits placed on the DTA, of the amount of DTA not supported by past taxes paid for companies with an Ex DTA RBC Ratio over 500%:

- If the full DTA less any valuation allowance (adjusted gross DTA) is admitted, the floor should be 1%.
- If current (or similar *to SSAP No. 10R*) capping procedures (*to the amount of admitted DTA*) are maintained, the floor should be 0% given the resulting implicit ‘RBC charge’ of the capping procedures.”

(Clarifying phrases from the September original report have been italicized for clarity)

The DTABG believes that the recommendations in our report continue to represent fair and appropriate RBC charges notwithstanding the increased conservatism in SSAP 101 applicable to the admittance requirements for DTAs in excess of those recoverable from past taxes. However, we note that the main concern of the DTABG was the risk associated with DTAs on the balance sheets of companies that were below 200% of authorized control level RBC. We believe that admitted DTA in excess of past taxes paid for these companies presents considerable risk.

¹ 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.

Therefore, the DTABG recommendation was predicated on eliminating the DTAs from the calculation of the RBC ratio for these companies and grading smoothly from there as the company's strength improved. The Ex-DTA RBC ratio was used as a measure of relative strength for this purpose; however, some objected to that use.

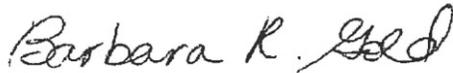
Considering all of the following:

- under SSAP 101, the admissibility rules have eliminated the DTA risk when the RBC ratio is below 200%,
- the comfort level of the drafters of SSAP 101 with the thresholds in the formula,
- the resistance to using the Ex-DTA RBC ratio in the calculation of the final RBC results,

a single factor in the 0% to 1% range applicable to the amount of DTA not supported by past taxes paid for all companies with an Ex-DTA RBC ratio more than 200% of ACL, as opposed to the recommendation in our original report, is a practical and reasonable alternative for the NAIC to consider.

If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council (202/223-8196; getachew@actuary.org).

Sincerely,



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