



AMERICAN ACADEMY *of* ACTUARIES

Observations on Life Insurers Deferred Tax Assets

Presented by the American Academy of Actuaries' Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioners' Life Risk-Based Capital Working Group

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The subcommittee would also like to thank Jim Reiskytl (who recently retired) for all of his efforts.

The attached surveys (included as Appendices A and B) were distributed to members of the Life Capital Adequacy Subcommittee and completed on two separate occasions. The following observations were collected based on the answers received.

Deferred Tax Assets (DTAs) Life Insurer Observations:

The primary focus for Risk-Based Capital (RBC) is to measure the volatility in this item. At this time, it is premature to come to any firm conclusions, since we only have 1.5 years of actual results.

The secondary focus is the actual recognition of DTAs. At the current time, only 30 to 40 percent of the total DTAs are statutorily recognized for most of the companies. This limited recognition may effect whether the factor applied to DTAs for RBC should be changed.

1. Ten to twenty percent of total DTAs arise from items with likely volatile items primarily from unrealized common stock losses or securities write-offs.
2. The top three most significant portions of total DTAs that are relatively stable arise from:
 - a) differences in tax and statutory reserves,
 - b) deferred acquisition costs, and
 - c) non-admitted assets

These items tend to be relatively stable from year to year.

3. Typically, sixty to seventy percent of the total DTAs are non-admitted, but the actual results from individual companies can range from zero to 100 percent
4. Major Factors affecting admissibility in the statutory financial statement are:
 - a) assumed timing of reversal of assets (amount expected to reverse in one year),
 - b) pay-out patterns of reserves,
 - c) separate company Net Operating Loss (NOL) carry-back limitations, and
 - d) unrealized gains
5. An informal survey (see appendices) of Life Capital Adequacy Subcommittee (LCAS) member company responses were that future change in DTAs admissibility is either likely to be the same as it is now or unable to be estimated at this time.
6. DTAs can be reduced by realizing the losses on investments. This does not change the RBC amount; it simply changes a future possibility to a certainty.
7. DTAs can also be reduced by recovery of the stock market values. This change too is a positive event, since common stock values have improved more than the offsetting deferred tax losses of unrealized losses.

The LCAS will continue to monitor the DTA/DTL results. The next report will be prepared based on year-end financial results. If anything noteworthy were to occur, this will be reported at the next LRBC Working Group meeting.

Appendix A

LIFE RBC DTA Survey

Items with Likely Volatility

| | <u>Millions</u> |
|------------------------|-----------------|
| Investment Items Total | \$ _____ |
| Bonds | _____ |
| Capital Gains/Losses | _____ |

Other Items with Relative Stability

Including: Reserve Items, Deferred Acquisition Costs, Policyholder Dividends,

Deferred Compensation, Prepaid Employee Benefits/Pensions,

Non-Admitted Assets, and Other* \$ _____

TOTAL DTA'S \$ _____

Please identify the top three or four specific items that are the most significant portion of your DTAs.

How many, if any, of your DTAs are non-admitted? Do you believe this percentage non-admitted is generally likely to increase? Stay about the same? Or decrease? What are the major factors affecting their admissibility?

Please return your replies to Steve English at the American Academy of Actuaries at _____ by May 20. Thanks for your help. All replies will be kept confidential and reported only in the aggregate.

Appendix B

LIFE RBC DTA Survey

Items with Likely Volatility

| | 6-month Results (Millions) | Estimated Year-end (Millions) |
|------------------------|---|--|
| Investment Items Total | \$ _____ | _____ |
| Bonds | _____ | _____ |
| Capital Gains/Losses | _____ | _____ |

Other Items with Relative Stability

Including: Reserve Items, Deferred Acquisition Costs, Policyholder Dividends, Deferred Compensation, Prepaid Employee Benefits/Pensions, Non-Admitted Assets, and Other

\$ _____

TOTAL DTA'S

\$ _____

Please identify the top three or four specific items that are the most significant portion of your DTAs.

How many, if any, of your DTAs are non-admitted? Do you believe this percentage non-admitted is generally likely to increase? Stay about the same? Or decrease? Don't know? What are the major factors affecting their admissibility?

*Please return your replies to Steve English at the American Academy of Actuaries at english@actuary.org by **August 21**. Thanks for your help. All replies will be kept confidential.