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
   Clarify reference to 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-02: Minimum Nonforfeiture Mortality and Interest
   Draft: 9/8/11
   Section 5

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.)

   Guidance Note: As any new Commissioners' Standard tables are adopted in the future, language or paragraphs will need to be added here to define what business is to use which tables. This will need to be coordinated with the valuation requirements contained in other sections of the Valuation Manual. 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. Thus, it is recommended that the transition period referenced in the guidance note in Section 3.C.1.b. of VM-20 be adopted; that is, that there be a transition period of about 4.5 years, 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 following calendar year, thereafter mandatory.

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.

Any mortality standard for minimum nonforfeiture values should be referred to as the "Commissioners' Standard Mortality Table." This language is in keeping with the language regarding tax reserve mortality tables contained in the Internal Revenue Code.

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* 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
Notes:			

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