



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

May 28, 2020

CC:PA:LPD:PR (REG-132529-17)  
Room 5203, Internal Revenue Service  
P.O. Box 7604, Ben Franklin Station  
Washington, DC 20044

On behalf of the Tax Work Group of the American Academy of Actuaries<sup>1</sup> Life Practice Council, we are writing to comment on a section of the proposed regulations that provide guidance on the computation of life insurance reserves for income tax reporting.

The section we are concerned with is proposed regulation 1.807-1 Computation of life insurance reserves; subparagraph (a) No asset adequacy reserves, which states,

“The life insurance reserve determined under section 807(d)(1) does not include any asset adequacy reserve. An asset adequacy reserve includes any reserve that is established as an additional reserve based upon an analysis of the adequacy of reserves that would otherwise be established or any reserve that is not held with respect to a particular contract. In determining whether a reserve is a life insurance reserve, the label placed on such reserve is not determinative, provided, however, any reserve or portion of a reserve that would have been established pursuant to an asset adequacy analysis required by the National Association of Insurance Commissioner’s Valuation Manual 30 as it existed on December 22, 2017 the date of enactment of Public Law 115-97, is an asset adequacy reserve.”

As a general concept, asset adequacy reserves are the result of “an analysis of the adequacy of the reserves that would otherwise be established.” However, it is not consistent with the National Association of Insurance Commissioner’s (NAIC’s) model Standard Valuation Law to state that asset adequacy reserves are **any** such reserves. Asset adequacy reserves include **only** those reserves which “have been established pursuant to an asset adequacy analysis required by the National Association of Insurance Commissioners.”

Furthermore, we think the reference to Valuation Manual Section 30 (VM-30) as it existed on December 22, 2017, is inconsistent with the other requirements in the Tax Cuts and Jobs Act (TCJA) to use the reserve method “as of the date the reserve is determined” (IRC section

---

<sup>1</sup> The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

807(d)(3)((A) and (B)). This language would not reflect updates to VM-30 after December 22, 2017.

Thus, we suggest the following edits to the proposed regulation 1.807-1(a):

“The life insurance reserve determined under section 807(d)(1) does not include an any asset adequacy reserve, as defined by the National Association of Insurance Commissioners as of the date the reserve is determined. ~~An asset adequacy reserve includes any reserve that is established as an additional reserve based upon an analysis of the adequacy of reserves that would otherwise be established or any reserve that is not held with respect to a particular contract.~~ In determining whether a reserve is a life insurance reserve, the label placed on such reserve is not determinative, provided, however, any reserve or portion of a reserve that ~~would have been~~ is established pursuant to an asset adequacy analysis required by the National Association of Insurance Commissioner’s Valuation Manual 30 ~~as it existed on December 22, 2017 the date of enactment of Public Law 115-97~~ as of the date the reserve is determined is an asset adequacy reserve.”

\*\*\*\*\*

We appreciate the opportunity to provide comments on this notice of proposed rulemaking and welcome the opportunity to speak with you regarding these comments in more detail and answer any questions you might have. If you have any questions or would like to discuss further, please contact Ian Trepanier, life policy analyst at the Academy at [trepanier@actuary.org](mailto:trepanier@actuary.org).

Thank you,

Mary Elizabeth Caramagno, MAAA, FSA  
Chairperson, Tax Work Group  
American Academy of Actuaries.