Bruce and Bruce Company

CONSULTING ACTUARIES

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HAPPY HOLIDAYS!

INSIDE THIS ISSUE

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Valuation Interest Rates

The average of the Moody's Corporate Average Yield Rates (MCAYR) was 4.22% in October.

Life
The 2015 Life Reserve Rate is 3.50% and the Life Non-forfeiture Rate is 4.50%, the same rates as in 2014.

Immediate Annuities
The valuation rate for Immediate Annuities is 4.50% for 2014. For the valuation rate to remain at its current level, the MCAYR would have to be between 4.92% and 5.40% through June 2015. Since the MCAYR was below 4.4% for the 4th straight month (4.22% in October), it is likely that the valuation rate will decrease by some amount in 2015. If the MCAYR is between 4.45% and 4.91% through June 2015, the valuation rate will fall to 4.25%. If the MCAYR is between 3.99% and 4.44% over the next 8 months, the valuation rate will fall to 4.00%.

For most clients, the 2015 SPIA will be reserved on a new mortality table, the 2012 IAR. *Please contact us for new factors to use when quoting SPIAs for 2015 issue.*

Deferred Annuities with Adjustable Guaranteed Minimum Interest Rate
Annually, we calculate at the end of October the minimum rate that could be used for the next calendar year. For calendar year 2015, the minimum guaranteed interest rate allowed by the regulatory formula is 1%; the same rate as 2014. You can guarantee a higher rate and continue to credit a higher "current non-guaranteed rate".

NEW IRA Rollover Rule Limited to One per Year

By David H. Chan

After a U.S. Tax Court Ruling, beginning on January 1, 2015, only one direct rollover is allowed within a 12-month period no matter how many IRA or Roth accounts you may have. An additional rollover from any of your IRA accounts within 12 months will be treated as a distribution and will be subject to income tax or penalty, if any. However, direct IRA to IRA rollovers in a year are not treated as distributions (regardless of how many times they were done within one year) if they are done on a trustee to trustee direct transfer basis. IRA trustees or custodians, however, may have their own company rules to restrict the number of rollovers you can have in a year. For example, if you want to move some money from an IRA with Bank A to your other IRA with Insurance Company B you can either: a) ask Bank A to send your IRA check directly to Insurance Company B and credit it into your IRA account, or b) ask Bank A to make the check payable to Insurance Company B for the benefit of your IRA and you send the check to Insurance Company B to credit it to your IRA. This is called direct trustee to trustee transfer and will not trigger a taxable event no matter how many times this is done within a year.

For more details, please see the IRS publication on page 4.

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Risk-Focused Financial Examinations

By Ed DePersis

Risk-Focused Financial Examinations (RFFE) have come about in response to a series of events, such as the 2008/2009 recession, the adoption of the Sarbanes-Oxley Act and attempts to solve financial reporting problems of public companies. The new "risk-focused" approach has been in effect since Jan. 1, 2010 and has proved to be more time-consuming for the actuary as it intentionally goes far beyond the past practice of just auditing the Annual Statement numbers and examining financial and policy records. As noted in the *Financial Examiner's Handbook*, "the concept of risk considered in a risk-focused examination encompasses not only risk as of the examination date, but risks which extend or commence during the time the examination was conducted, and risks which are anticipated to arise or extend past the point of completion of the process." This means that risks besides financial reporting risks may be viewed as part of the examination process. This has resulted in a greater time commitment for the actuary and higher costs for the company undergoing the examination.

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2014 Cash Flow Testing

New York and California requirements are being studied and will likely cause or increase some asset adequacy reserves for those affected.

The interest rate curve as of September 2014 is basically the same as 2013 so (all other things being equal) 2014 cash flow testing results should be comparable to 2013 results.

At the most recent annual seminars of the Fraternal Societies of Greater Pittsburgh (FSGP), Pennsylvania Insurance Department personnel stressed that the cost of the RFFE is going to be two to three times greater than prior exam costs. That has been the experience of those Pennsylvania fraternals currently undergoing the exam. The new approach requires that the actuarial area be examined in the context of the company's enterprise risk management. In some exams, additional cash flow calculations were necessary to convince examiners that cash flow results for the life portion were satisfactory based on the allocation of assets. Examiners have also requested additional information not previously requested in the annual reviews of the Asset Adequacy Memorandum.

The new risk-focused examination consists of 7 "phases". **Phase 1** is about understanding the company, identifying the material risks that the company may be facing and determining how the governance structure of the company works to mitigate those risks. In **Phase 2**, the key risks identified in Phase 1 are assessed in terms of their impact on surplus and labeled as "high", "moderate", or "low". In **Phase 3**, examiners are trying to determine whether adequate controls are in place to prevent the occurrence of risks that have been deemed to have a significant impact on surplus. Companies should have developed a risk matrix outlining the risks that have been identified and the associated controls to mitigate the risks. In **Phase 4**, examiners use the information and documentation obtained in Phase 3 to determine "residual risk". In **Phase 5**, detail examinations procedures are conducted; Phase 5 is the phase where the traditional actuarial examination testing would be performed. In **Phase 6**, the company's supervisory plan is updated. In **Phase 7**, the examination report and management letter are completed.

NAIC Life Actuarial Task Force- Ongoing Projects

The Life Actuarial Task Force is an NAIC committee whose mission is "to identify, investigate and develop solutions to actuarial problems in the life insurance industry." We monitor its activities for changes relevant to our clients. Here are some of the activities that we've been following very closely in 2014:

- Valuation Manual and Principle-Based Reserving (PBR) work,
- Work on appropriate revisions to Standard Non-forfeiture Law for Life Insurance and the Valuation Manual, and
- Work with the American Academy of Actuaries and the Society of Actuaries to develop new mortality tables for preneed, simplified issue and guaranteed issue forms of life insurance and minimum non-forfeiture requirements for life insurance.
- Review of Actuarial Guideline XXXIII (AG33), CARVM for Annuities with Elective Benefits to recommend changes as appropriate.
- Study the feasibility of a new non-forfeiture law for life insurance and annuities to replace the existing non-forfeiture standards.

IRS Clarifies Application of One-Per-Year Limit on IRA Rollovers, Allows Owners of Multiple IRAs a Fresh Start in 2015

IR-2014-107, Nov. 10, 2014

WASHINGTON — The Internal Revenue Service today issued guidance clarifying the impact a 2014 individual retirement arrangement (IRA) rollover has on the one-per-year limit imposed by the Internal Revenue Code on tax-free rollovers between IRAs.

The clarification relates to a change, announced earlier this year, in the way the statutory one-per-year limit applies to rollovers between IRAs. The change in the application of the one-per-year limit reflects an interpretation by the U.S. Tax Court in a January 2014 decision applying the limit to preclude an individual from making more than one tax-free rollover in any one-year period, even if the rollovers involve different IRAs. Before 2015, the one-per-year limit applies only on an IRA-by-IRA basis (that is, only to rollovers involving the same IRAs). Beginning in 2015, the limit will apply by aggregating all of an individual's IRAs, effectively treating them as if they were one IRA for purposes of applying the limit.

To help taxpayers by allowing time for transition to the new interpretation, the IRS announced shortly after the January 2014 Tax Court decision that the new interpretation would not apply before Jan. 1, 2015.

In Announcement 2014-32, posted today on IRS.gov, the IRS made clear that the new interpretation will apply beginning Jan. 1, 2015, and said that a distribution from an IRA received during 2014 and properly rolled over (normally within 60 days) to another IRA, will have no impact on any distributions and rollovers during 2015 involving any other IRAs owned by the same individual. This will give IRA owners a fresh start in 2015 when applying the one-per-year rollover limit to multiple IRAs.

Although an eligible IRA distribution received on or after Jan. 1, 2015 and properly rolled over to another IRA will still get tax-free treatment, subsequent distributions from any of the individual's IRAs (including traditional and Roth IRAs) received within one year after that distribution will not get tax-free rollover treatment. As today's guidance makes clear, a rollover between an individual's Roth IRAs will preclude a separate tax-free rollover within the 1-year period between the individual's traditional IRAs, and vice versa.

As before, Roth conversions (rollovers from traditional IRAs to Roth IRAs), rollovers between qualified plans and IRAs, and trustee-to-trustee transfers--direct transfers of assets from one IRA trustee to another--are not subject to the one-per-year limit and are disregarded in applying the limit to other rollovers.

IRA trustees are encouraged to offer IRA owners requesting a distribution for rollover the option of a trustee-to-trustee transfer from one IRA to another IRA. IRA trustees can accomplish a trustee-to-trustee transfer by transferring amounts directly from one IRA to another or by providing the IRA owner with a check made payable to the receiving IRA trustee.

More information on the rule change can be found on IRS.gov. Type "IRA" in the search box.