

Bruce and Bruce Company

CONSULTING ACTUARIES

NEWSLETTER

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HAPPY HOLIDAYS!

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Staff News

Robert E Bruce is now, officially, semi-retired. Although normal duties have been delegated to others on the staff, he will be in the office daily and available for consultation with clients, for work on new products, and for participation in processing company mergers. Concurrently, also, he is now Secretary Emeritus for ELCO Mutual Life and Annuity.

Congratulations to Grant Hemphill who now serves as Chief Actuary. Grant joined Bruce and Bruce Company in 2011. He is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries and a Charter Life Underwriter. Our other 3 actuaries, Bill Bruce, David Chan, and Caroline Choi continue in their respective positions.

Valuation Interest Rates

The Moody's Corporate Average Yield Rate (MCAYR) was 4.62% in November.

Life

The 2016 Life Reserve Rate is 3.50% and the Life Non-forfeiture Rate is 4.50%, the same rates as in 2015.

Immediate Annuities

The projected valuation rate for Immediate Annuities is 4.25% for 2016.

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 2016, the minimum guaranteed interest rate allowed by the regulatory formula is 1%; the same as the rate for 2015. You can guarantee a higher minimum rate and continue to credit a higher "current non-guaranteed rate."

Principle-Based Reserving

Principle-Based Reserving (PBR) is close to becoming a reality as 39 States have adopted it so far. PBR will be the national standard when 42 States with at least 75% of the US life insurance premium have approved the necessary PBR enabling law. Should the thresholds be met by July 1, 2016, PBR legislation would go into effect on Jan. 1, 2017. When implemented, PBR will be applicable only to life insurance reserves, not applicable to annuity reserves.

1. Impact on Small Companies/Fraternal Benefit Societies

PBR will have a 3-year phase-in and will affect only life insurance reserves initially. The types of life business most likely to have significant change in reserves are term insurance and Universal Life insurance with secondary guarantees. Large companies with lots of term and UL business are counting on PBR reducing the amount of required reserves.

However, once implemented, there may be an impact on Whole Life insurance reserves as well. Furthermore, there will be, quite possibly, no reserve reduction in total life insurance reserves, but an increase in reserves by some amount. Even if the reserves change little, the cost of generating PBR is significant. In addition to the cost of time, there will be the cost of software to generate PBR. The process for generating PBR will look a lot like the process to generate cash flow Asset Adequacy Analysis. But, of course, cash flow testing will still be required, along with Risk Based Capital (RBC). For an unknown cost, there will be a third process dependent upon "judgment assumptions" and a variety of scenarios.

2. Possible Small Company Exemption

There is some significant movement to create a small company exemption from PBR. At this time, the exemption criteria are undergoing discussion, but the general consensus seems to be as follows:

- a. The company has less than \$300,000,000 of life insurance premium;
- b. The company has a Risk Based Capital of 450% or higher;
- c. The company has a current year end Unqualified Actuarial Opinion regarding reserves;
- d. The company has no Universal Life insurance with secondary guarantees.

It is important to note that there are already differences in applicable exemption criteria among some states. Pennsylvania, for example, is considering a higher RBC ratio threshold.

In order to get the "small company exemption" the company will have to submit a written request to the Home State Insurance Commissioner, possibly by as early as July for the coming year end reserves.

As PBR legislation passes 3 more States, there will be more news and views forthcoming from many sources, including from us.

For now you do not need to do anything other than be aware of what may be coming.....sooner than most of us want.

Please call/write with any questions.

2016 Dollar Limitations on Benefits and Contributions to Retirement Plans and IRAs

The IRS has released information regarding limits on the dollar amount of contributions to retirement plans and IRAs and the amount of benefits under a pension plan. IRC Section 415 requires the limits to be adjusted annually for cost-of-living increases. In general, limitations on benefits and contributions will not change for 2016 because the increase in the cost-of-living index did not meet the statutory thresholds that trigger their adjustment. (See the table below)

You can find more information on the IRS web site: www.irs.gov

	2016	2015	2014
IRAs			
IRA Contribution Limit	\$5,500	\$5,500	\$5,500
IRA Catch-Up Contributions	1,000	1,000	1,000
IRA AGI Deduction Phase-out Starting at			
Joint Return	98,000	98,000	96,000
Single or Head of Household	61,000	61,000	60,000
SEP			
SEP Minimum Compensation	600	600	550
SEP Maximum Contribution	53,000	53,000	52,000
SEP Maximum Compensation	265,000	265,000	260,000
SIMPLE Plans			
SIMPLE Maximum Contributions	12,500	12,500	12,000
Catch-up Contributions	3,000	3,000	2,500
401(k), 403(b), Profit-Sharing Plans, etc.			
Annual Compensation	265,000	265,000	260,000
Elective Deferrals	18,000	18,000	17,500
Catch-up Contributions	6,000	6,000	5,500
Defined Contribution Limits	53,000	53,000	52,000
ESOP Limits	1,070,000	1,070,000	1,050,000
	210,000	210,000	210,000
Other			
HCE Threshold	120,000	120,000	115,000
Defined Benefit Limits	210,000	210,000	210,000
Key Employee	170,000	170,000	170,000
457 Elective Deferrals	18,000	18,000	17,500
Control Employee (board member or officer)	105,000	105,000	105,000
Control Employee (compensation-based)	215,000	215,000	210,000
Taxable Wage Base	118,500	118,500	117,000

Exam Fee Information from the CA Department of Insurance

The California Department of Insurance has released a notice containing a list of examination fees that must be paid by insurance companies if the Department conducts an examination. Fees covering Financial Analysis, Tax Audit, and Insurance Practice Examinations range from \$152/hour to \$179/hour. Actuarial Reviews (performed by actuaries) are \$356/hour.