

A Taxing Challenge for the Global (re)Insurance Industry



A presentation at the CLRS
By Tina Gwilliam, Terri Dalenta and David Cummings
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Antitrust Notice

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Agenda

- Overview

- Bingo



Tina Gwilliam

Global Product Leader for Reserving
Willis Towers Watson

- Grange experience



Terri Dalenta

CFO and Executive Vice President
Grange Insurance

- USAA experience



David Cummings

Senior Vice President, Chief Actuary
USAA

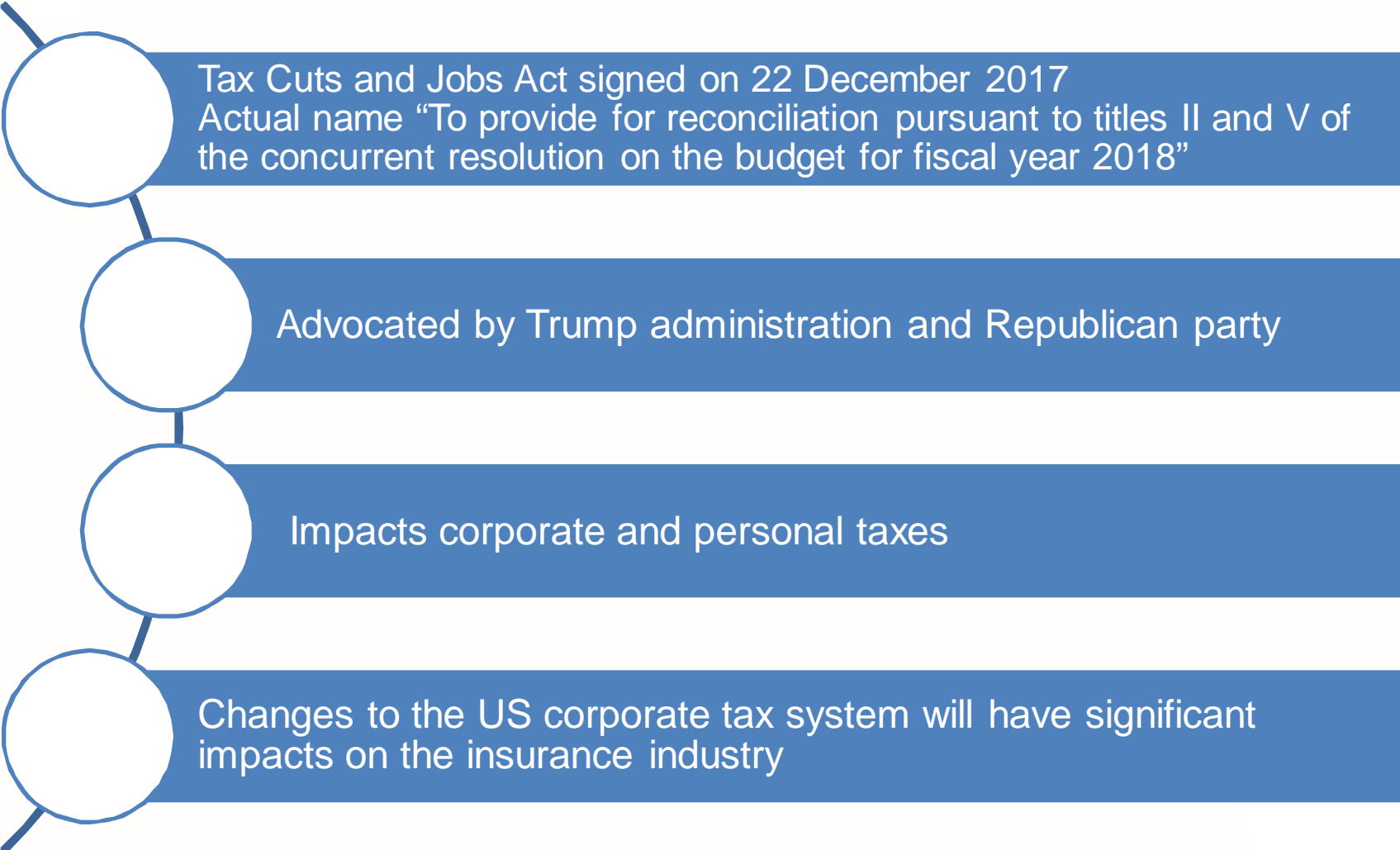
- Discussion

- Q&A



Tina Gwilliam

Introduction



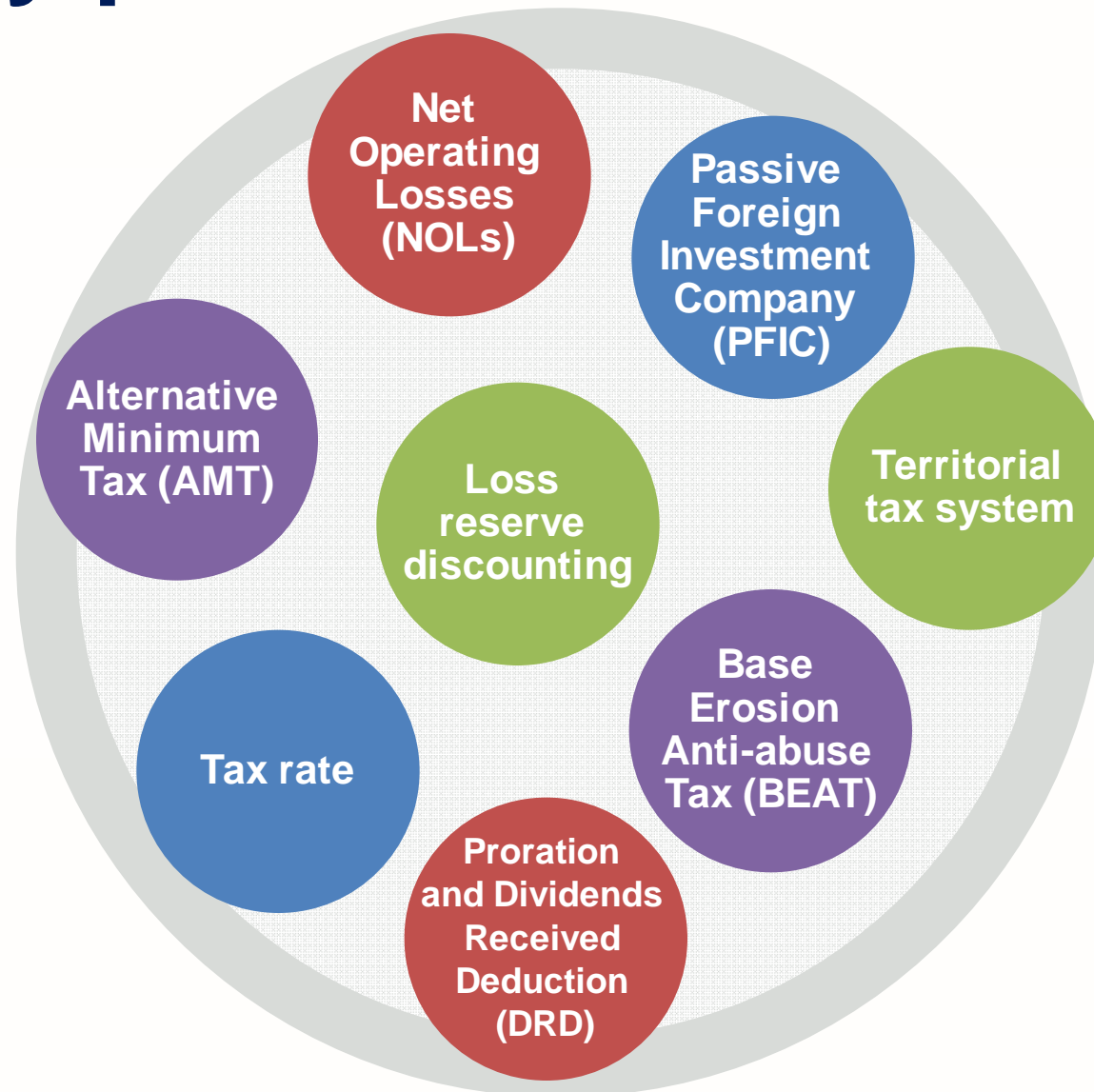
Tax Cuts and Jobs Act signed on 22 December 2017
Actual name “To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”

Advocated by Trump administration and Republican party

Impacts corporate and personal taxes

Changes to the US corporate tax system will have significant impacts on the insurance industry

Key provisions



Key provisions

Tax rate

- Lowered from 35% to 21%
- Immediate impact on deferred tax asset (DTA) and deferred tax liability (DTL) accounts

Key provisions

Territorial tax system

- Change from worldwide tax system to a territorial system
- 100% deduction for dividends received from foreign affiliates

Key provisions

Proration and Dividends Received Deduction (DRD)

- Municipal bond income and unaffiliated equity dividends effective tax rates remain basically unchanged
- Corporate bond income reflects lower 21% tax rate

Key provisions

Base Erosion Anti-abuse Tax (BEAT)

- A minimum tax reflecting items such as ceded premiums to offshore affiliates
- BEAT rate is 5% in 2018 and 10% thereafter

Key provisions

Loss reserve discounting

- Payment pattern extended
- Discount rate based on higher corporate yield curve

Key provisions

Net Operating Losses (NOLs)

- P&C insurers retain NOLs for a two year carryback and forward 20 years

Let's play Bingo!



Tax Act of 2017				
B	I	N	G	O
Consulted their personal tax advisor to discuss the impacts	Bonus pre-pay	Capital Investment	Expects to gain from expansion in the child tax credit	Changed asset allocation of investment portfolio
Noticed an increase in their take-home pay	Revised premiums	Updated capital models	Changed corporate structure	Benefited from an increase in the estate tax exemption
Expects to gain from expansion in the child tax credit	Knows someone who dropped healthcare when the individual mandate was repealed	Free	Consulted their personal tax advisor to discuss the impacts	Updated capital models
Accelerated charitable contributions	Accelerated pension contributions	Noticed an increase in their take-home pay	Revised premiums	Noticed an increase in their take-home pay
Knows someone who dropped healthcare when the individual mandate was repealed	Changed reinsurance structure	Benefited from an increase in the estate tax exemption	Changed asset allocation of investment portfolio	Minimum wage increase



INTRODUCING GRANGE INSURANCE




Grange
Insurance


Grange
Insurance

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HOW WE GOT STARTED

The Dust Bowl of 1932 halted agricultural production and disrupted the livelihood of farmers across the Midwest, adding further difficulties to those living in the Great Depression.

It was one year later when John C. Haaf – an Ohio farmer without any prior claims – saw his insurance premium go up from \$10 to \$12. This would not stand.

Haaf formed his own insurance company to offer affordable auto insurance to other frustrated farmers who were members of a farming group known as the Grange.

In 1935, Grange Mutual Casualty Company was born. And more than 80 years later, our foundation serves both as a reminder that the customer comes first and that there is no limit to what we can accomplish together.



WHERE WE ARE NOW

6 CONSECUTIVE YEARS
WITH NCOR <100

9 CONSECUTIVE YEARS
OF SURPLUS GROWTH

\$1.2B PREMIUM AT
YEAR END 2017

WHERE WE ARE NOW

- **WE HAVE 0.25 TAX PEOPLE – IT TAKES A VILLAGE**
- **ECONOMIC VIEW FIRST**
- **VERY LITTLE TIME TO ACT, A VERY LONG TIME TO REACT**



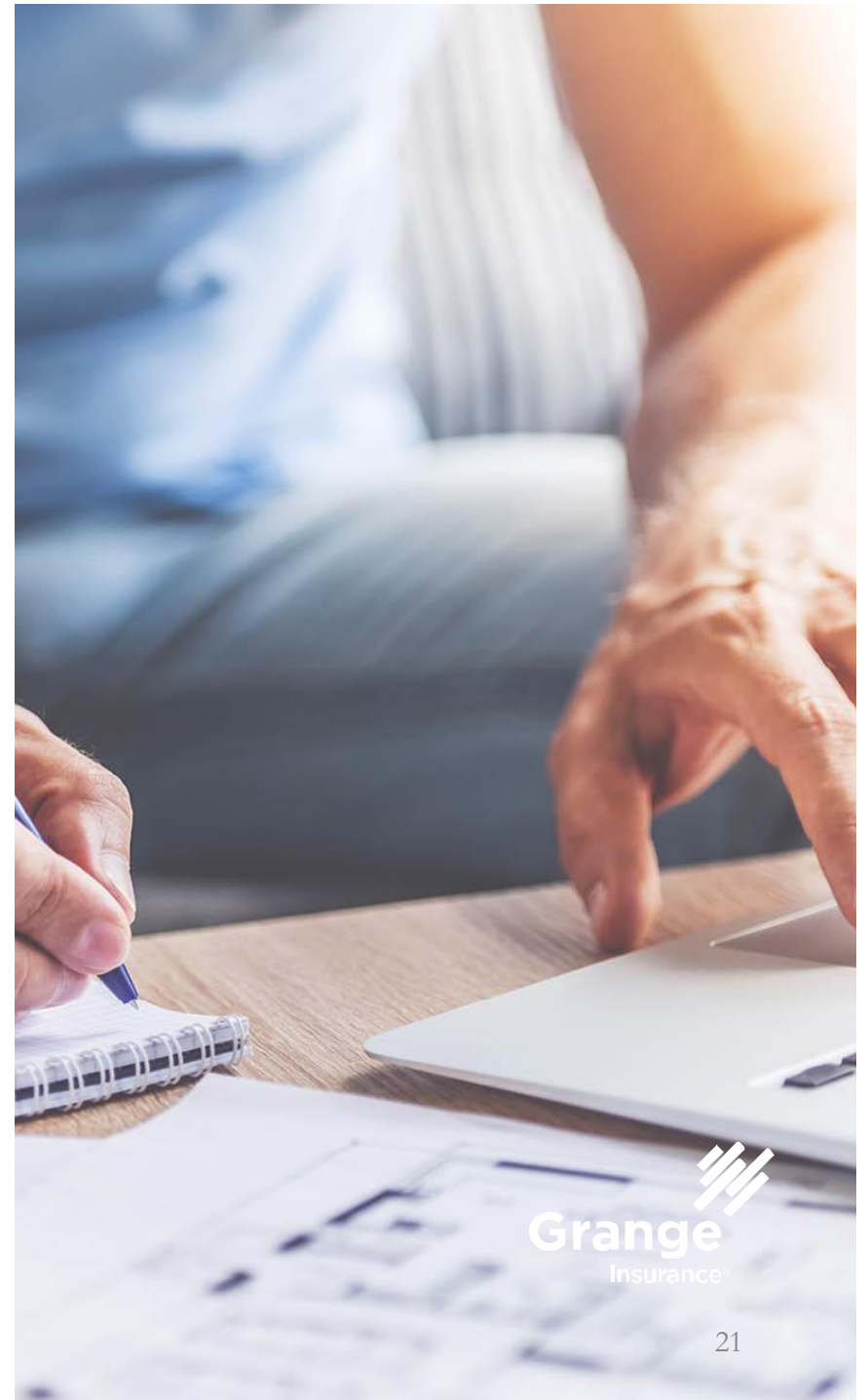
PHASE 1 – PRE 12/31/17

- **BONUSES PAYABLE**
- **CHARITABLE CONTRIBUTIONS**
- **PENSION CONTRIBUTIONS**



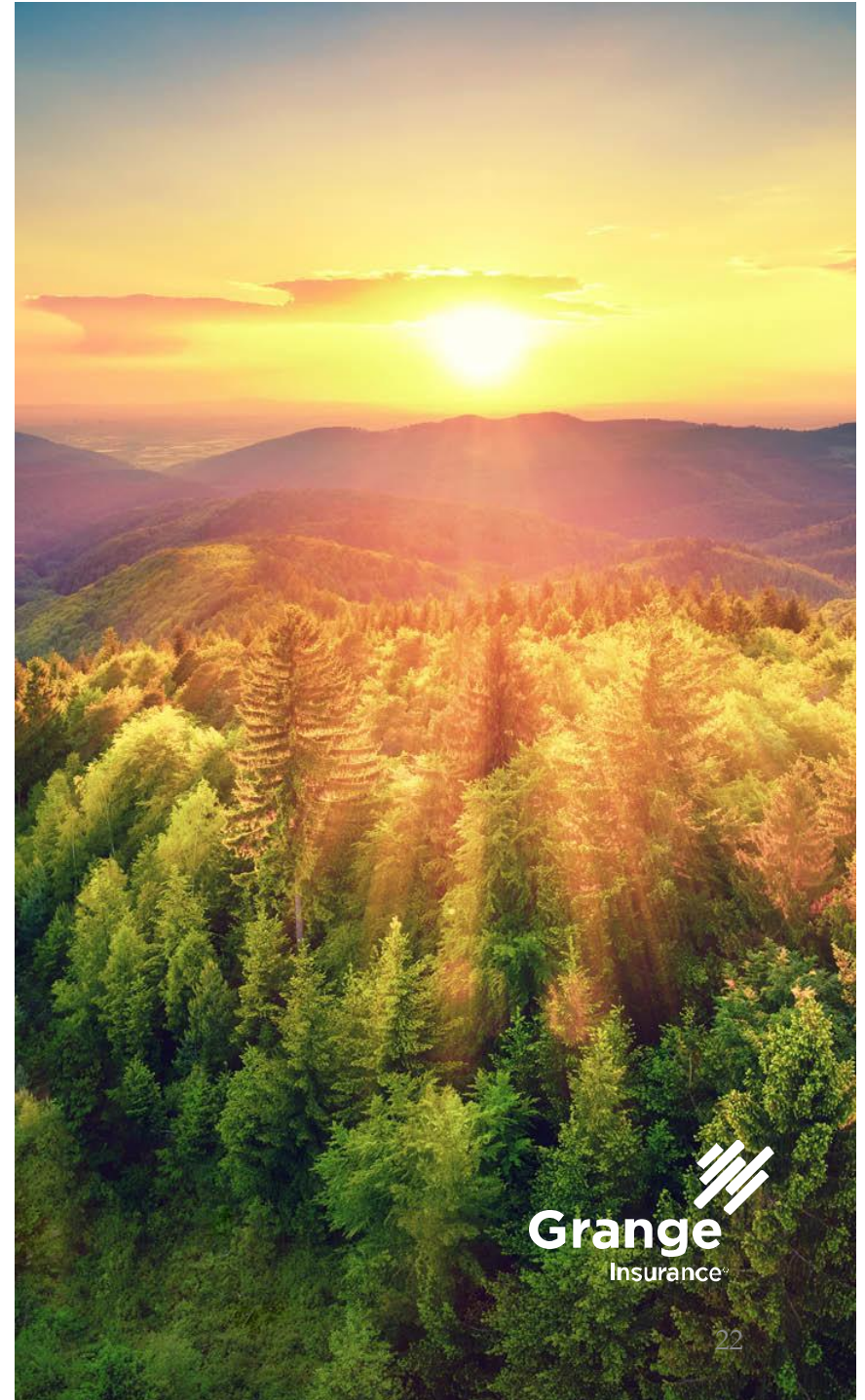
PHASE 2 – 2018

- **MINIMUM
WAGE/BONUSES**
- **DE-RISK PENSION
PLAN(S)**
- **MAKE CAPITAL
INVESTMENTS**



WHAT NOW?

- **REBALANCE INVESTMENT PORTFOLIOS**
- **CAPITAL INVESTMENTS**
- **REINSURANCE**



INTRODUCING USAA



OUR MISSION



The mission of the association is to facilitate the financial security of its members, associates and their families through provision of a full range of highly competitive financial products and services; in so doing, USAA seeks to be the provider of choice for the military community.

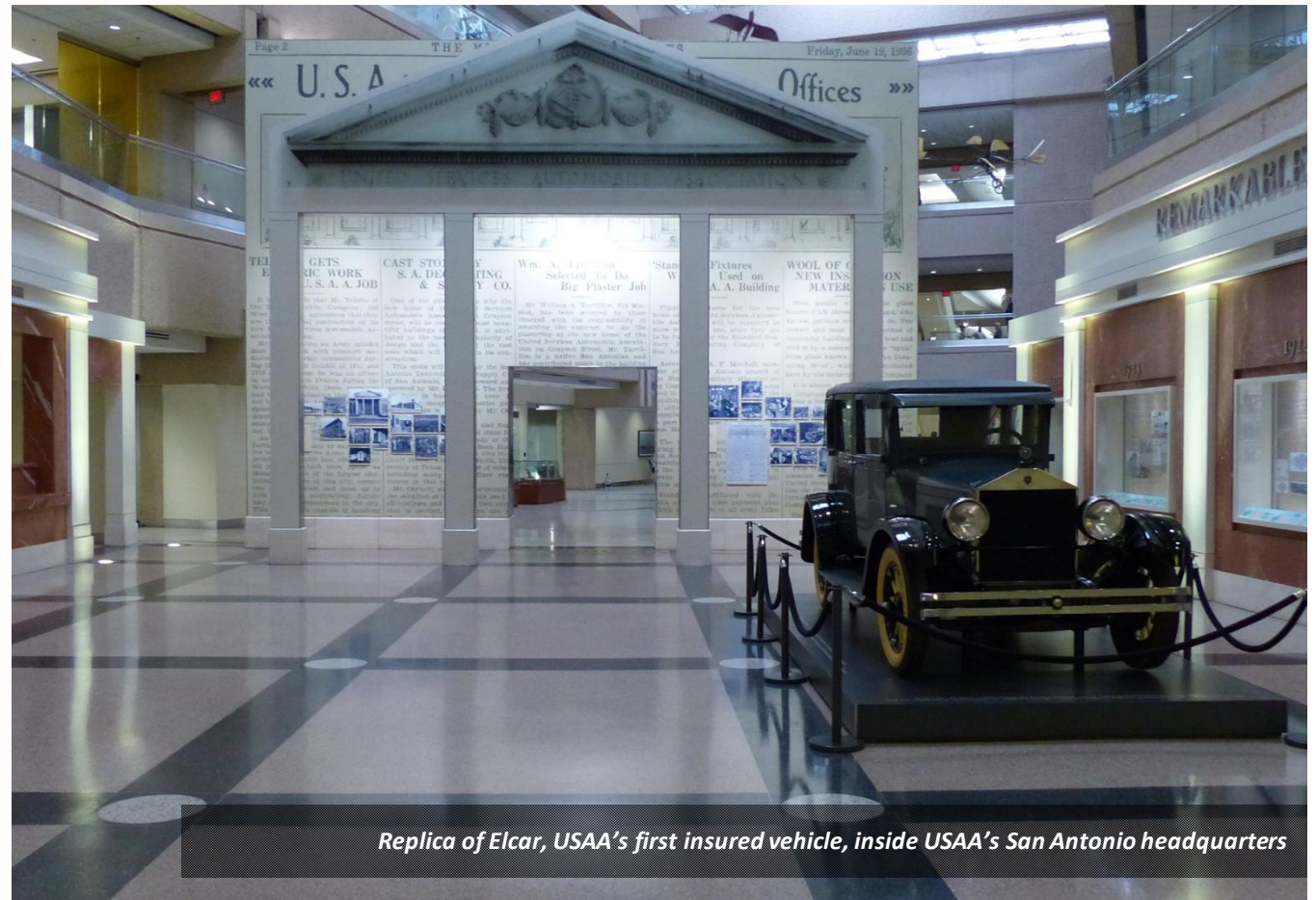
THE USAA STANDARD



- Keep our membership and mission first
- Live our core values: **Service, Loyalty, Honesty, Integrity**
- Be authentic and build trust
- Create conditions for people to succeed
- Purposefully include diverse perspectives for superior results
- Innovate and build for the future

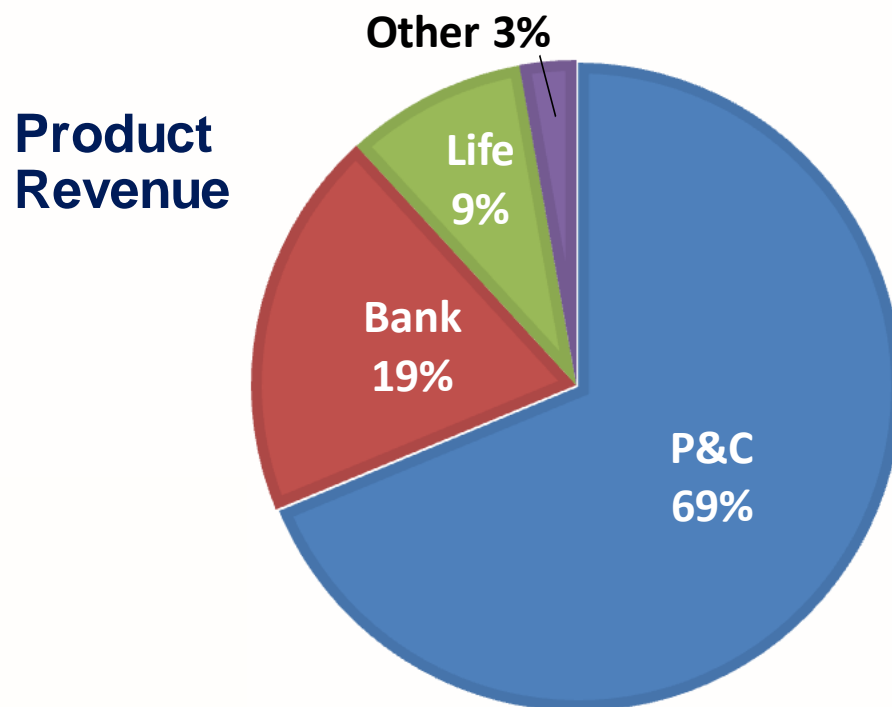
Financials

- **\$30 billion** in revenue in 2017
- **\$30+ billion** in net worth (12/31/17)
- **\$261 billion** in USAA owned and managed assets
- No. 102 in FORTUNE 500®



Replica of Elcar, USAA's first insured vehicle, inside USAA's San Antonio headquarters

Diversified Financial Services Company



- Handled **287,000+** disaster claims in 2017 with more than \$15 billion paid in total claims
- USAA Bank ranks **28th largest U.S. bank** based on deposits at \$71 billion
- **\$77+ billion** in mutual fund AUM

Considerations and Observations

- Understanding a moving target — pre and post-enactment
- Internal Capital Models
- Analysis of long-term profit needs/capital growth
- Engaging leadership in tax decisions in a pre-tax income culture
- Put first things first — Mission and Membership

Discussion

Questions





THANK YOU