



Extra 1% levy

- From 1 August 2009, 1% levy applicable
- All life assurance business (excluding Class VII)
- Covers all future premiums under new SP and RP business
- Covers existing RP business whenever it was incepted
- Life companies responsible for collecting the levy and passing it on to the Govt
- Technical and reserving issues

Technical Issues



- Legally – can it be passed on or does it have to be absorbed?
 - E.g. Term Assurances
 - Guaranteed contracts (in the money)
 - If it is not passed on, are there expectations created?
 - Flex WL – bomb out?
- Disclosure/CPC – where does it fit in?
 - Tables – Tax? Expense? Interaction with exit tax?
 - Re-disclose?
 - RIY

Technical Issues



- Exit tax – how does it interact with the levy?
 - “Premium” before or after the levy?
 - What happens if levy taken by unit deduction?
 - Can it be offset against exit tax?
- Annuity/ARF purchase – pay the levy again?
- PRSAs – is the levy additional to the charge cap?



1% Levy Reserving Issues

- Appointed Actuary not responsible for PRE but must reserve in accordance with his/her interpretation of PRE (ASP LA-1 2.5)
- Policy conditions may specify how a levy should be dealt with or may be silent
- Next slides discuss some examples
- In these slides “reserving” means creating additional reserves now on the basis of your PRE interpretation that the company should not pass the charge on to the customer



1% Levy Reserving Issues

- Unit Linked policy contains the following wording
- “If there is a change in the basis of taxation (which word shall include levies or duties imposed on the company or the policy) or should there be a change to other applicable law we will make be entitled to appropriate changes to the terms of the policy.”
- What is PRE here?
- Is there a need to reserve for levy?



1% Levy Reserving Issues

- Unit Linked policy contains the following wording
- “Should the basis of taxation of the policy or other applicable law change we will make appropriate changes to the terms of the policy”
- What is PRE here?
 - Is levy a tax on policy or company?
- Should you reserve for levy?



1% Levy Reserving Issues

- Term assurance policy is silent on tax changes but disclosure document said
- “We may change the terms of this policy if the tax treatment of the company or the policy changes”
- What is PRE here?
- Should you reserve for levy?



1% Levy Reserving Issues

- Term assurance policy is silent on tax changes and policy pre-dates disclosure
- What is PRE here?
- Should you reserve for levy?
- Would your view change if legal department advises that it is acceptable to pass levy onto such customers by increasing premiums?