

**Internal Revenue Service, Treasury**

**§ 1.806-4**

Assets at 12-31-58 on such contracts .....	80,000	
Sum .....	144,000	
Mean .....	72,000	
Fraction taken into account .....	292/365	
Adjustment (292/365×\$72,000) .....		\$57,600
Mean of N's assets after section 806(a) adjustment .....		7,067,600

*Example 5.* The facts are the same as in example 1, except that on October 19, 1958, company N transfers to company P, a life insurance company, all of the life insurance reserves, and related assets, on the block of policies it had received from company M on March 14, 1958. The reserves (and assets) for this block totaled \$76,000 on October 19, 1958. The means of company M's life insurance reserves and assets, as computed in examples 1 and (2), respectively, would be unchanged by the transfer of October 19, 1958. Since company N did not own this block of policies at either the beginning or end of the taxable year, it would not have to recompute its beginning or end of the taxable year reserves or assets. Company N will, however, have to adjust (or increase) the mean of its life insurance reserves and assets on account of the policies it received from company M. This adjustment will be \$42,000, which is determined by multiplying the means of the life insurance reserves (or assets) on these policies as of March 15, 1958, and October 19, 1958, \$70,000  $(\$64,000 + \$76,000 = \$140,000 \div 2)$  by the fraction 219/365 (the numerator of 219 is determined by excluding the day of the transfer to N, March 14, 1958, and including the day of the transfer from N to P, October 19, 1958). Company P will have to recompute its end of the year life insurance reserves and assets (in the same manner as illustrated in examples 3 and 4). Assuming the end of the year reserves (and assets) on this block of policies is \$80,000, company P will have an adjustment under section 806 (a) of \$15,600, which is determined by multiplying the means of the reserves on these policies as of October 20, 1958, and December 31, 1958, \$78,000  $(\$76,000 + \$80,000 = \$156,000 \div 2)$  by the fraction 73/365.

[T.D. 6513, 25 FR 12663, Dec. 10, 1960]

**§ 1.806-4 Change of basis in computing reserves.**

(a) *In general.* For purposes of subpart B, part I, subchapter L, chapter 1 of the Code, section 806(b) provides that if the basis for determining the amount of any item referred to in section 810(c) (relating to items taken into account) as of the close of the taxable year differs from the basis for such determination as of the beginning of the taxable

year, then in determining taxable investment income the amount of the item as of the close of the taxable year shall be the amount computed on the old basis, and the amount of the item as of the beginning of the next taxable year shall be the amount computed on the new basis. For purposes of the preceding sentence, an election under section 818(c) shall not be treated as a change in basis for determining the amount of an item referred to in section 810(c). A change of basis in computing any of the items referred to in section 810(c) is not a change of accounting method requiring the consent of the Secretary or his delegate under section 446(e).

(b) *Illustration of change of basis in computing reserves.* The application of section 806(b) and paragraph (a) of this section may be illustrated by the following examples:

*Example 1.* Assume that the life insurance reserves of Y, a life insurance company, at the beginning of the taxable year 1959 are \$100 and that during such taxable year a portion of the reserves is strengthened (by reason of a change in mortality or interest assumptions, or otherwise), so that at the end of the taxable year 1959 the reserves (computed on the new basis) are \$130 but computed on the old basis would be \$120. Assume further that at the close of the next taxable year, 1960, the reserves (computed on the new basis) are \$142. Under the provisions of section 806(b) and paragraph (a) of this section, the mean of such reserves for the taxable year of the reserve strengthening, namely 1959, is \$110 (the mean of \$100, the balance at the beginning of the taxable year 1959, and \$120, the balance at the end of the taxable year 1959 computed on the old basis). The mean of such reserves for the next taxable year, 1960, is \$136 (the mean of \$130, the balance at the beginning of the taxable year 1960 computed on the new basis, and \$142, the balance at the end of the taxable year 1960 computed on the new basis).

*Example 2.* The life insurance reserves of S, a life insurance company, computed with respect to contracts for which such reserves are determined on a recognized preliminary term basis amount to \$50 on January 1, 1959, and \$80 on December 31, 1959. For the taxable year 1959, S elects to revalue such reserves on a net level premium basis under section 818(c). Such reserves computed under section 818(c) amount to \$60 on January 1, 1959, and \$96 on December 31, 1959. Under the provisions of paragraph (a) of this section, the mean of such reserves for the taxable year 1959 is \$78 (the mean of \$60, the balance at

§ 1.807-1

the beginning of the taxable year 1959 computed under section 818(c), and \$96, the balance at the end of the taxable year 1959 computed under section 818(c).

[T.D. 6513, 25 FR 12669, Dec. 10, 1960]

§ 1.807-1 Mortality and morbidity tables.

(a) *Tables to be used.* If there are no commissioners' standard tables applicable to an insurance contract when the contract is issued, then the mortality and morbidity tables set forth in this subsection are used to compute reserves under section 807(d)(2) for the contract.

Type of Contract	Table
1. Group term life insurance (active life reserves).	1960 Commissioners' Standard Group Mortality Table.
2. Group life insurance (active life reserves); accidental death benefits.	1959 Accidental Death Benefits Table.
3. Permanent and paid-up group life insurance (active life reserves).	Same table as are applicable to males for ordinary life insurance.
4a. Group life insurance disability income benefits (active life reserves).	The tables of period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries.
4b. Group life insurance disability income benefits (disabled life reserves).	The 1930 to 1950 termination rates of the 1952 Disability study of the Society of Actuaries.
5. Group life insurance; survivor income benefits insurance.	Same tables as are applicable to group annuities.
6. Group life insurance; extended death benefits for disabled lives.	1970 Intercompany Group life Disability Valuation Table.
7. Credit life insurance .....	1958 Commissions' Extended Term Table.
8. Supplementary contracts involving life contingencies.	Same tables as are applicable to individual immediate annuities.
9. Noncancellable accident and health insurance (active life reserves); benefits issued before 1984.	Tables used for NAIC annual statement reserves as of December 31, 1983.
10a. Noncancellable accident and health insurance (active life reserves); group disability benefits issued after 1983 and individual disability benefits issued after 1983 and before 1989.	1964 Commissioners' Disability Tables.
10b. Noncancellable accident and health insurance (active life reserves); individual disability benefits issued after 1988.	1985 Commissioners' Individual Disability Table A or Commissioners' Individual Disability Table B.
11. Noncancellable accident and health insurance (active life reserves); accidental death benefits issued after 1983.	1959 Accidental Death Benefits Tables.

Type of Contract	Table
12. Noncancellable accident and health insurance (active life reserves); all benefits issued after 1983 other than disability and accidental death.	Tables used for NAIC annual statement reserves.
13a. Noncancellable accident and health insurance (claim reserves); group disability benefits for all years of issue and individual disability benefits for years before 1989.	1964 Commissioners' Disability Tables.
13b. Noncancellable accident and health insurance (claim reserves); individual disability benefits for years after 1988.	1985 Commissioners' Individual Disability Table A or Commissioners' Individual Disability Table B.
14. Noncancellable accident and health insurance (claim reserves); all benefits other than disability for all years of issue.	Tables used for annual statement reserves.

(b) *Adjustments.* An appropriate adjustment may be made to the tables in paragraph (a) of this section to reflect risks (such as substandard risks) incurred under the contract which are not otherwise taken into account.

(c) *Special rule where more than 1 table or option applicable.* If, with respect to any category of risks, there are 2 or more tables (or options under 1 or more tables) in paragraph (a) of this section, the table (and option thereunder) which generally yields the lowest reserves shall be used to compute reserves under section 807(d)(2) for the contract.

(d) *Effective date.* This section is effective for taxable years beginning after December 31, 1983, except that the 1985 Commissioners' Individual Disability Tables A and B shall be treated (for purposes of section 807(d)(5)(B) and for purposes of determining the issue dates of contracts for which they shall be used) as if the tables were new prevailing commissioners' standard tables adopted by the twenty-sixth State on December 26, 1989.

[T.D. 8278, 54 FR 52934, Dec. 26, 1989; 55 FR 1768, Jan. 18, 1990]

§ 1.807-2 Cross-reference.

For special rules regarding the treatment of modified guaranteed contracts (as defined in section 817A and § 1.817A-1(a)(1)), see § 1.817A-1.

[T.D. 9058, 68 FR 24350, May 7, 2003]