

Individual Life and Annuity Life Finance & Valuation – US Spring and Fall 2015

Important Exam Information:

[Exam Registration](#)

Candidates may register online or with an application.

[Order Study Notes](#)

Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.

[Introductory Study Note](#)

The Introductory Study Note has a complete listing of all study notes as well as errata and other important information.

Case Study

There is no case study for this examination.

[Past Exams](#)

Past Exams from 2000-present are available on SOA website.

[Updates](#)

Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

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Exam: ILA - LfV	TOPIC: Financial Reporting
Learning Objectives	
<p>1. The candidate will understand financial statements and reports of U.S. life insurance companies and be able to analyze the data in them.</p>	
Learning Outcomes	
<p>The candidate will be able to:</p> <p>A. Construct financial statements for a life insurance company under U.S. GAAP accounting methods and principles.</p> <p>B. Construct financial statements for a life insurance company under U.S. Statutory accounting methods, including describing the structure of the U.S. Annual Statement and explain the purpose of its major exhibits and schedules.</p> <p>C. Compute the U.S. federal taxable income of a life insurance company.</p> <p>D. Explain the appropriate accounting treatments for items such as, but not limited to:</p> <ul style="list-style-type: none"> i) Separate Accounts ii) Embedded options iii) Derivatives iv) Secondary guarantees <p>E. Describe, use and recommend methods for performing reviews of reserves.</p>	
Syllabus Resources	
<ul style="list-style-type: none"> • <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4th Edition, Ch. 1, 2 • <i>US GAAP For Life Insurers</i>, Herget et. al., 2nd Edition, Ch. 13 (excl. 13.7), 14 (SFAS 115) • LfV-100-07: Financial Reporting Developments -Accounting for Derivative Instruments and Hedging Activities: A Comprehensive Analysis of FASB Statement 133, as Amended and Interpreted (Overview and appendix C only) • LfV-102-09: Actuarial Review of Reserves and Other Annual Statement Liabilities • LfV-800-07: IASA <i>Life and Accident and Health Insurance Accounting</i> Ch. 8 pp. 12-16 and Ch. 12 pp 1-15 & 32-33 • ASOP 10: Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance With GAAP (excluding Transmittal Memo and Appendixes) • AICPA Releases SOP 05-1- Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, Financial Reporter, March 2006 	

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Exam: ILA – LFV	TOPIC: <u>Principles of Valuation</u>
Learning Objectives	
2. The candidate will be able to understand and apply valuation principles of individual life insurance and annuity products issued by U.S. life insurance companies.	
Learning Outcomes	
The candidate will be able to:	
<p>A. Describe and differentiate between valuation methods under the following standards:</p> <ul style="list-style-type: none"> i) U.S. statutory ii) U.S. GAAP iii) U.S. tax <p>B. Recommend and justify appropriate valuation assumptions under the following standards:</p> <ul style="list-style-type: none"> i) U.S. statutory ii) U.S. GAAP iii) U.S. tax <p>C. Calculate liabilities for life and annuity products and their associated riders under the following standards:</p> <ul style="list-style-type: none"> i) U.S. statutory ii) U.S. GAAP iii) U.S. tax <p>D. Calculate DAC assets for life and annuity products and their associated riders under the standard: U.S. GAAP.</p>	
Syllabus Resources	
<ul style="list-style-type: none"> • <i>US GAAP For Life Insurers</i>, Herget, et. al., 2nd Edition, Ch. 3, 4, 6-9 • <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4th Edition, Ch. 1, 4-12 • LFV-800-07: IASA <i>Life and Accident and Health Insurance Accounting</i> Chapters 8 pp. 12-16 and 12 pp 1-15 & 32-33 • LFV-802-07: <i>U. S. Tax Reserves for Life Insurers</i> <ul style="list-style-type: none"> ○ Chapter 2 Tax-Basis Reserves Generally ○ Chapter 7 Section 807(f) and Changes in the Computation of Reserves • LFV-803-14: NAIC Standard Valuation Law • LFV-810-10: AAA: Practice Note on FAS 157 & FAS 159 • LFV-811-10: Actuarial Guideline XXXV • LFV-812-10: A Discussion of Actuarial Guideline 43 for Variable Annuities • <u>ULSG AG38 Valuation Research Report</u>, <i>The Financial Reporter</i>, June 2013, pp. 1, 4-7 	

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Exam: ILA - LFV	TOPIC: <u>Emerging Standards</u>
Learning Objectives	
<p>3. The candidate will be able to understand and analyze the implications of emerging financial and valuation standards.</p>	
Learning Outcomes	
<p>The candidate will be able to describe and assess the impact on reserves, capital, and/or income of emerging developments in</p> <p>A. U.S. GAAP Reporting</p> <p>B. International Financial Reporting Standards</p> <p>C. U.S. principle-based reserve regulation.</p> <p>D. Solvency Modernization</p>	
Syllabus Resources	
<ul style="list-style-type: none"> • LFV-127-15: IASB Staff Paper, Effect of Board Deliberations on the 2013 Exposure Draft Insurance Contracts, July 2014 • LFV-129-13: An Approach to Fair Valuation of Insurance Liabilities Using the Firm’s Cost of Capital (pp. 18 -23) • LFV-130-13: Fair Value of Liabilities: The Financial Economic Perspective • LFV-132-14: Practical Guide to IFRS, PwC, (July 2013) • LFV-808-15: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities • LFV-809-09: Emerging Financial Reporting Issue • SOA Research Project on Financial Reporting for Insurance Contracts under Possible Future International Accounting Standards November,2010, pp.4-42,78-83 • An Approach for measurement of the Fair Value of Insurance Contracts, Gutterman, et al., Actuarial Practice Forum, May 2007 • Fair Value Accounting: Trouble-maker or Life-saver?, Financial Reporter, April 2009 	

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Exam: ILA - LFV	TOPIC: <u>Financial and Capital Management</u>
Learning Objectives	
4. The candidate will be able to explain and apply the methods, approaches and tools of financial management and value creation in a life insurance company context.	
Learning Outcomes	
<p>The candidate will be able to:</p> <ul style="list-style-type: none"> A. Describe and calculate performance measures. B. Perform financial analysis on a product line or company. C. Explain and create a product line “gains by source” analysis. D. Apply methods of valuation to business and asset acquisitions and sales. This includes explaining and applying the methods and principles of embedded value. E. Explain and apply methods and approaches of surplus management and earnings management. F. Describe and apply the principles of how insurance companies create value from a financial economics perspective. 	
Syllabus Resources	
<ul style="list-style-type: none"> • LFV-106-07: Chapter 4 of <i>Insurance Industry Mergers & Acquisitions</i> (Sections 4.1-4.6) • LFV-128-13: <i>Life Insurance Products and Finance</i>, Atkinson and Dallas, Ch. 16 • LFV-807-09: Market Value Margins for Insurance Liabilities in Financial Reporting and Solvency Applications, October 2007 (pp. 2-65 only) • LFV-815-13: Understanding Profitability in Life Insurance • LFV-818-15: Introduction to Source of Earnings Analysis, Vande Vrede, July 2014 • Stochastic Analysis of Long Term Multiple-Decrement Contracts, Clark and Runchey, Jan 2008 (Exclude Appendices) • Strategic Management of Life Insurance Company Surplus, TSA XXXVIII (pages 105-116) • Embedded Value: Practice and Theory, SOA, Actuarial Practice Forum, March 2009 	

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Exam: ILA - LFV	TOPIC: Financial and Capital Management
Learning Objectives	
5. The candidate will understand the Risk Based Capital (RBC) regulatory framework and the principles underlying the determination of Regulatory RBC and Economic Capital	
Learning Outcomes	
<p>The candidate will be able to:</p> <p>A. Explain and distinguish the roles of capital from the perspectives of regulators, investors, policyholders and insurance company management</p> <p>B. Describe the U.S. Risk Based Capital (RBC) regulatory framework and the principles underlying the determination of Regulatory RBC, and be able to compute RBC for a U.S. life insurance company including:</p> <ul style="list-style-type: none"> i) Identification of significant risk components ii) Identification of specialized product RBC requirements iii) Interpreting results from a regulatory perspective iv) Implementation under US principle-based approach <p>C. Explain and describe the concept and roles of Economic Capital including:</p> <ul style="list-style-type: none"> i) Identification of the significant risk components ii) Selecting calculation methods appropriate to stakeholder's perspectives iii) Describing how a company would implement an Economic Capital Program 	
Syllabus Resources	
<ul style="list-style-type: none"> • <i>Valuation of Liabilities</i>, 4th Edition, Lombardi, Ch. 16 (excl. 16.6) • LFV-121-08: Economic Capital Modeling: Practical Considerations (pp. 4-34 only) • LFV-131-14: Economic Capital Overview: Chad Runchey, August 2012 • LFV-808-15: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities • LFV-813-13: U.S. Insurance Regulation Solvency Framework and Current Topics • LFV-816-13: Regulatory Issues in Insurance, Sigma #3/2010 Swiss Re (pages 3-24) • Economic Capital for life Insurance Companies, SOA Research paper, Feb 2008, Chapters 1 and 3-6 • A Multi-Stakeholder Approach to Capital Adequacy, Conning Research 	

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Exam: ILA - LFV	TOPIC: Reinsurance
Learning Objectives	
6. The candidate will be able to evaluate various forms of reinsurance, the financial impact of each form, and the circumstances that would make each type of reinsurance appropriate.	
Learning Outcomes	
The candidate will be able to:	
A. Describe the considerations and evaluate the appropriate form of reinsurance from the ceding and assuming company perspectives	
B. Explain the consequences and evaluate the effect on both ceding and assuming companies with respect to:	
i) risk transfer	
ii) cash flow	
iii) financial statements	
iv) reserve credit requirements	
Syllabus Resources	
<ul style="list-style-type: none">• <i>Life, Health and Annuity Reinsurance</i>, Tiller, 3rd Edition, Ch. 4-6, 10, 12, 13• ASOP #11: The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements (excluding Transmittal Memo and Appendices)	

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Exam: ILA - LFV	TOPIC: Professional Considerations
Learning Objectives	
7. The candidate will understand the professional standards addressing financial reporting and valuation.	
Learning Outcomes	
<p>The candidate will be able to:</p> <ul style="list-style-type: none">A. Explain the role and responsibilities of the appointed / valuation actuary.B. Identify and apply relevant professional actuarial qualification standards.C. Identify and apply actuarial standards of practice relevant to financial reporting and valuation.D. Explain the actuary's professional responsibilities to stakeholders including obligations under Sarbanes-Oxley.	
Syllabus Resources	
<ul style="list-style-type: none">• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4th Edition, Ch. 15• LFV-804-07: NAIC Actuarial Opinion and Memorandum Regulation• Actuarial Aspects of SOX 404, Financial Reporter, Dec 2004• Responsibilities of the Actuary for Communicating Sarbanes-Oxley control: Effectiveness in Accordance with Actuarial Standards of Practice, Financial Reporter, Dec 2004• ASOP 41 - Actuarial Communication (excluding Transmittal Memo and Appendices)• ASOP 21 - Responding to the Auditor (excluding Transmittal Memo and Appendices)	