

# ILA – Life Financial Management, U.S. Exam

Spring 2020/Fall 2020

## 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.

### Syllabus Readings

Readings listed in this syllabus may include study notes, online readings and textbooks. Candidates are responsible for all readings in their entirety, including sections such as Appendices, unless it is stated otherwise in the syllabus.

### [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

A case study will not be used 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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<b>1. Topic: US GAAP Financial Reporting and Valuation</b>
<b>Learning Objectives</b>
The candidate will understand and apply U.S. GAAP valuation principles and methods applicable to individual life insurance and annuity products issued by U.S. life insurance companies.
<b>Learning Outcomes</b>
The Candidate will be able to:  a) Describe, apply and evaluate the appropriate valuation methods and techniques and related accounting treatments for reserves and related items (e.g., DAC), and other assets and liabilities for specific insurance products under U.S. GAAP. Further, describe and recommend assumptions and margins appropriate to these GAAP reserves  b) Describe and apply the requirements, calculations, and disclosures related to GAAP "Targeted Improvements"  c) Describe, apply and evaluate the appropriate accounting treatments for derivatives and hedging arrangements  d) Describe, apply and evaluate the appropriate valuation methods and techniques and related accounting treatments for Investments held by insurance companies
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>US GAAP for Life Insurers</i>, Herget et al., 2<sup>nd</sup> Edition, 2006<ul style="list-style-type: none"><li>○ Chapter 3: Expenses and Capitalization (excluding 3.7.3, 3.11.4.5 &amp; 3.12)</li><li>○ Chapter 4: Traditional Life Insurance (SFAS 60 &amp; 97) (excluding 4.4-4.14)</li><li>○ Chapter 6: Universal Life Insurance (excluding 6.7-6.7.1.6, 6.7.3-6.7.6.3 &amp; 6.10-6.13.2)</li><li>○ Chapter 7: Deferred Annuities (excluding 7.4.1d, 7.6, 7.8, 7.10 &amp; 7.11)</li><li>○ Chapter 9: Annuities in Payment Status (excluding 9.5)</li><li>○ Chapter 13: Investment Accounting (excluding 13.7 &amp; 13.12)</li><li>○ Chapter 15: Accounting for Business Combinations (excluding 15.7.3-15.7.8 &amp; 15.10.5-15.15)</li><li>○ Chapter 17: Reinsurance, sections 17.4-17.6 (excluding 17.5.1, 17.6.1, 17.6.3.4 &amp; 17.6.3.5)</li><li>○ Chapter 18: Other Topics: Deferred Taxes and Fair Value Reporting (excluding 18.2, 18.4 &amp; 18.6)</li></ul></li><li>• LFM-142-20: In Depth - Detailing the New Accounting for Long-Duration Contracts of Insurers</li><li>• LFM-810-20: Practice Note on FAS 157 and 159, AAA, 2009 (Questions 1-12 &amp; 27-29)</li><li>• LFM-840-20: A Comprehensive Guide - Derivatives and Hedging, E&amp;Y, 2019, (Sections 1.1-1.7, 3.1-3.3, 4.1-4.3, 9.1-9.5, Appendices A and C1.1-1.4)</li><li>• LFM-841-20: A Closer Look at How Insurers Will Have to Change their Accounting and Disclosures for Long-Duration Contracts, E&amp;Y, Nov 2018</li><li>• <a href="#">Targeted Improvements Interactive Model</a></li></ul>

## 2. Topic: US Statutory Financial Reporting and Valuation

### Learning Objectives

The candidate will understand and apply U.S. Statutory valuation principles and methods applicable to individual life insurance and annuity products issued by U.S. life insurance companies.

### Learning Outcomes

The Candidate will be able to:

- a) Describe, apply and evaluate the appropriate valuation methods and techniques and related accounting treatments for reserves and related items, and other assets and liabilities for specific insurance products under the U.S. Statutory rules. Further, describe and recommend assumptions and margins appropriate to these statutory reserves
- b) Describe, apply and evaluate the Principle-Based Reserves valuation methods and techniques for specific insurance products under U.S. Statutory rules
- c) Describe and evaluate the fundamental features and design of the U.S. Statutory regulatory system

### Resources

- *Statutory Valuation of Individual Life and Annuity Contracts*, Claire, D., Lombardi, L. and Summers, S., 5<sup>th</sup> Edition, 2018

**Note:** The Lombardi text contains Excel workbook files which supplement and illustrate the content in the text. Candidates are encouraged to download and review them to gain a deeper appreciation for the methodologies and relationships being illustrated.

- Chapter 1: Overview of Valuation Concepts (excluding 1.1-1.9)
- Chapter 2: Product Classifications (2.2 only)
- Chapter 3: NAIC Annual Statement
- Chapter 4: Standard Valuation Law
- Chapter 5: The Valuation Manual
- Chapter 10: Valuation Assumptions (excluding 10.1.3 & 10.3.8)
- Chapter 11: Valuation Methodologies (excluding 11.3.9-11.3.11)
- Chapter 12: Whole Life
- Chapter 13: Term Life Insurance
- Chapter 14: Universal Life (excluding 14.4.8, 14.4.9, 14.5.0 & 14.6.2-14.6.6)
- Chapter 16: Indexed Universal Life (excluding 16.4.2-16.4.3)
- Chapter 18: Fixed Deferred Annuities (excluding 18.7.4 & 18.8)
- Chapter 19: Variable Deferred Annuities (excluding 19.4)
- Chapter 20: Indexed Deferred Annuities
- Chapter 21: Immediate Annuities

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- Chapter 22: Miscellaneous Reserves (excluding 22.3-22.4)
- Chapter 23: PBR for Life Products (excluding 23.1)
- Chapter 24: PBR for Variable Annuities
- LFM-143-20: Fundamentals of the Principle-Based Approach to Statutory Reserves for Life Insurance, Jul 2019
- LFM-800-07: Chapters 8 (pp. 12-16) and 12 (pp.1-15 & 32-33) of IASA Life and Accident and Health Insurance Accounting
- LFM-801-20: NAIC Standard Non-forfeiture Law for Life Insurances: Sections 1-4, 5c, 6-9
- LFM-822-16: Study Note on Actuarial Guidelines AG 38 and 48 (excluding pp. 6-8)
- LFM-832-17: AG 49 – A Closer Look
- LFM-836-17: AG 49 Post Standards Update
- LFM-842-20: NAIC Standard Non-forfeiture Law for Individual Deferred Annuities
- LFM-843-20: NAIC Life Insurance Illustrations Model Regulation
- LFM-844-20: Life Principle-Based Reserves Under VM-20, AAA Practice Note (required questions are listed on the first page of this study note)
- [ASOP 52 - Principle-Based Reserves for Life Products under the NAIC Valuation Manual on PBR for Life Products](#), Section 3
- [Impacts of AG 48](#), Financial Reporter, Dec 2015
- [PBA Corner: Evolution of VM-20](#), Financial Reporter, Jun 2016
- [Reporting and Disclosure Requirements Under VM-31: Reporting Requirements for Business Subject to PBR](#), Financial Reporter, Sep 2017
- [Interactive Principle-Based Reserves Model](#)

<b>3. Topic: US Insurance Product and Insurance Company Taxation</b>
<b>Learning Objectives</b>
The candidate will: <ul style="list-style-type: none"><li>• Understand the significant impact on individual life insurance and annuity product design and management of U.S. insurance product taxation rules.</li><li>• Understand and apply the significant rules of U.S. insurance company taxation as they apply to U.S. life insurers.</li></ul>
<b>Learning Outcomes</b>
The Candidate will be able to: <ul style="list-style-type: none"><li>a) Describe and apply the significant US tax regulations relating to the taxation of individual life and annuity insurance products</li><li>b) Describe, apply and evaluate the valuation methods and techniques for specific insurance products under U.S. taxation rules. Further, evaluate and calculate deferred tax items</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• LFM-845-20: Chapters 1 and 2 of <i>Life Insurance and Modified Endowments Under IRC §7702 and §7702A</i>, Desrochers, 2<sup>nd</sup> Edition</li><li>• <a href="#">LFM-846-20: Company Tax – Introductory Study Note</a></li></ul>

<b>4. Topic: International Financial Reporting and Valuation</b>
<b>Learning Objectives</b>
The candidate will understand the fundamental features of the U.S. and International regulatory framework.
<b>Learning Outcomes</b>
The Candidate will be able to describe and evaluate: <ul style="list-style-type: none"><li>a) The features of the U.S. regulatory regime and the forces which are shaping the evolution of the regime</li><li>b) The features of the emerging International regulatory framework, and its development in Canada</li><li>c) The valuation methodology specified in IFRS 17</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• LFM-141-18: IFRS 17 Insurance Contracts – IFRS Standards Effects Analysis, May 2017, IASB (sections 1, 2, 4 &amp; 6.1-2 only)</li><li>• LFM-144-20: The Modernization of Insurance Company Solvency Regulation in the US (excluding sections 7 &amp; 9)</li><li>• LFM-145-20: Global Insurance Regulatory Issues: Implications for U.S. Policy and Regulation (excluding pp. 20-29)</li><li>• LFM-847-20: Life Insurance Regulatory Framework, OSFI, 2012</li><li>• <a href="#">Tailoring Global Capital Standards</a>, The Actuary, 2017</li></ul>

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<b>5. Topic: Capital Topics</b>
<b>Learning Objectives</b>
The candidate will understand the fundamental purpose of capital, and its determination and stakeholders.
<b>Learning Outcomes</b>
The Candidate will be able to describe and evaluate the theory of capital (including economic capital), and evaluate its applicability for various purposes and its value to different stakeholders
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>Statutory Valuation of Individual Life and Annuity Contracts</i>, Claire, D., Lombardi, L. and Summers, S., 5<sup>th</sup> Edition, 2018<ul style="list-style-type: none"><li>○ Chapter 29: Risk-Based Capital</li></ul></li><li>• LFM-136-16: Chapter 11 of <i>Life Insurance Products and Finance</i>, Atkinson &amp; Dallas, pp. 499-502</li><li>• LFM-148-20: The Theory of Risk Capital in Financial Firms</li><li>• LFM-813-13: U.S. Insurance Regulation Solvency Framework and Current Topics</li><li>• <a href="#">Economic Capital A Case Study to Analyze Longevity Risk</a>, Risk &amp; Rewards, Aug 2010</li><li>• <a href="#">Economic Capital for Life Insurance Companies</a>, SOA Research Paper, Oct 2016 (excluding sections 5 &amp; 7)</li><li>• <a href="#">A Multi-Stakeholder Approach to Capital Adequacy</a>, Conning Research, Actuarial Practice Forum</li></ul>

<b>6. Topic: Corporate Financial Management of Insurance Companies</b>
<b>Learning Objectives</b>
The candidate will understand important insurance company issues, concerns and financial management tools.
<b>Learning Outcomes</b>
The candidate will be able to describe, apply and evaluate considerations and matters related to: <ul style="list-style-type: none"><li>a) Insurance company mergers and acquisitions</li><li>b) Management of variable deferred annuities</li><li>c) Embedded Value determinations</li><li>d) VM-20 financial impacts</li><li>e) Rating agency considerations</li><li>f) Special Purpose Vehicles</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>Statutory Valuation of Individual Life and Annuity Contracts</i>, Claire, D., Lombardi, L. and Summers, S., 5<sup>th</sup> Edition, 2018<ul style="list-style-type: none"><li>○ Chapter 19: Variable Deferred Annuities, Section 19.4</li></ul></li><li>• LFM-106-07: Chapter 4 of Insurance Industry Mergers &amp; Acquisitions (sections 4.1-4.6)</li><li>• LFM-137-16: EVARAROC vs MCEV Earnings – A Unification Approach, Kraus, 2011</li><li>• LFM-138-16: Prudential Financial Stockholder’s Equity and Operating Leverage, HBR, 2008</li><li>• LFM-146-20: The Next Chapter - Creating an understanding of Special Purpose Vehicles</li><li>• LFM-147-20: A.M. Best’s - Compendium of Publications</li><li>• <a href="#">Embedded Value: Practice and Theory</a>, Actuarial Practice Forum, Mar 2009</li><li>• <a href="#">Model Audit Rule</a>, American Academy of Actuaries Practice Note, 2010</li><li>• <a href="#">Understanding VM-20 Results</a>, 2017 (excluding Section 4)</li></ul>