

**Individual Life and Annuity Life Finance & Valuation – U.S.  
Fall 2013**

**Important Exam Information:**

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| <a href="#">Exam Date and Time</a>      | A read-through time will be given prior to the start of the exam—15 minutes in the morning session and 15 minutes in the afternoon session. |
| <a href="#">Exam Registration</a>       | Candidates may register online or with an application.  |
| <a href="#">Order Study Notes</a>       | Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.           |
| <a href="#">Introductory Study Note</a> | The Introductory Study Note has a complete listing of all study notes as well as errata and other important information.                    |
| <a href="#">Case Study</a>              | There is no case study for this examination.  |
| <a href="#">Past Exams</a>              | Past Exams from 2000-present are available on SOA website.  |
| <a href="#">Updates</a>                 | 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: <b>Financial Reporting</b> |
| Learning Objectives   |                                   |
| <p><b>1. The candidate will understand financial statements and reports of U.S. life insurance companies and be able to analyze the data in them.</b></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"> <li>i) Separate Accounts</li> <li>ii) Embedded options</li> <li>iii) Derivatives</li> <li>iv) Secondary guarantees</li> </ul> <p>E. Describe, use and recommend methods for performing reviews of reserves.</p>   |                                   |
| Syllabus Resources  |                                   |
| <ul style="list-style-type: none"> <li>• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4<sup>th</sup> Edition, Ch. 1, 2</li> <li>• <i>US GAAP For Life Insurers</i>, Herget et. al., 2<sup>nd</sup> Edition, Ch. 13 (excl. 13.7), 14 (SFAS 115)</li> <li>• LFV-800-07: <i>IASA Life and Accident and Health Insurance Accounting</i> Ch. 8 pp. 12-16 and Ch. 12 pp 1-15 &amp; 32-33 (Formerly ILA-C800-07)</li> <li>• LFV-100-07: <i>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)</i> (Formerly ILA-C100-07)</li> <li>• LFV-102-09: <i>Actuarial Review of Reserves and Other Annual Statement Liabilities</i> (Formerly ILA-C102-09)</li> <li>• ASOP 10: <a href="#">Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance With GAAP</a> (excluding Transmittal Memo and Appendixes)</li> <li>• SOP 05-1: <a href="#">Financial Reporter Article 03/06: AICPA Releases SOP 05-1- Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts</a></li> </ul> |                                   |

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|---|---------------------------------------|
| Exam: ILA – LFV   | TOPIC: <u>Principles of Valuation</u> |
| Learning Objectives   |                                       |
| <b>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.</b>  |                                       |
| 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"> <li>i) U.S. statutory</li> <li>ii) U.S. GAAP</li> <li>iii) U.S. tax</li> </ul> <p>B. Recommend and justify appropriate valuation assumptions under the following standards:</p> <ul style="list-style-type: none"> <li>i) U.S. statutory</li> <li>ii) U.S. GAAP</li> <li>iii) U.S. tax</li> </ul> <p>C. Calculate liabilities for life and annuity products and their associated riders under the following standards:</p> <ul style="list-style-type: none"> <li>i) U.S. statutory</li> <li>ii) U.S. GAAP</li> <li>iii) U.S. tax</li> </ul> <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"> <li>• <i>US GAAP For Life Insurers</i>, Herget, et. al., 2<sup>nd</sup> Edition, Ch. 3 (excl. 3.11), 4, 6-9</li> <li>• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4<sup>th</sup> Edition, Ch. 1, 4-12</li> <li>• LFV-802-07: <i>U. S. Tax Reserves for Life Insurers</i> (Formerly ILA-C802-07) <ul style="list-style-type: none"> <li>○ Chapter 2 Tax-Basis Reserves Generally</li> <li>○ Chapter 7 Section 807(f) and Changes in the Computation of Reserves</li> </ul> </li> <li>• LFV-800-07: <i>IASA Life and Accident and Health Insurance Accounting</i> Chapters 8 pp. 12-16 and 12 pp 1-15 &amp; 32-33 (Formerly ILA-C800-07)</li> <li>• LFV-803-07: <i>NAIC Standard Valuation Law</i> (Formerly ILA-C803-07)</li> <li>• LFV-810-10: <i>AAA: Practice Note on FAS 157 &amp; FAS 159</i> (Formerly ILA-C810-10)</li> <li>• LFV-811-10: <i>Actuarial Guideline XXXV</i> (Formerly ILA-C811-10)</li> <li>• LFV-812-10: <i>A Discussion of Actuarial Guideline 43 for Variable Annuities</i> (Formerly ILA-C812-10)</li> <li>• <a href="#">FAS 157 Staff Position Paper</a>, pp. 1-8</li> </ul> |                                       |

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| Exam: ILA - LfV  | TOPIC: <u>Emerging Standards</u> |
| Learning Objectives  |                                  |
| <p><b>3. The candidate will be able to understand and analyze the implications of emerging financial and valuation standards.</b></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"> <li>• LfV-127-13: IASB Staff Paper, Effect of Board Redeliberations on ED Insurance Contracts, July 2012 (Formerly ILA-C127-13)</li> <li>• LfV-129-13: An Approach to Fair Valuation of Insurance Liabilities Using the Firm’s Cost of Capital, NAAJ, Apr 2002, p. 18-23</li> <li>• LfV-130-13: Fair Value of Liabilities: The Financial Economic Perspective, NAAJ, Jan 2002</li> <li>• LfV-808-13: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities (Formerly ILA-C808-13)</li> <li>• LfV-809-09: Emerging Financial Reporting Issues (Formerly ILA-C809-09)</li> <li>• <a href="#">SOA Research Project on Financial Reporting for Insurance Contracts under Possible Future International Accounting Standards, November 24, 2010</a>, pp.4-42,78-83</li> <li>• Gutterman, et al., <a href="#">An Approach for Measurement of the Fair Value of Insurance Contracts</a>, Actuarial practice Forum, May 2007</li> <li>• <a href="#">Fair Value Accounting: Trouble-maker or Life-saver?</a>, Financial Reporter, April 2009</li> </ul> |                                  |

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| Exam: ILA - LFV   | TOPIC: <b><u>Financial and Capital Management</u></b> |
| Learning Objectives   |   |
| <b>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.</b>   |   |
| Learning Outcomes   |   |
| <p>The candidate will be able to:</p> <ul style="list-style-type: none"> <li>A. Describe and calculate performance measures.</li> <li>B. Perform financial analysis on a product line or company.</li> <li>C. Explain and create a product line “gains by source” analysis.</li> <li>D. Apply methods of valuation to business and asset acquisitions and sales. This includes explaining and applying the methods and principles of embedded value.</li> <li>E. Explain and apply methods and approaches of surplus management and earnings management.</li> <li>F. Describe and apply the principles of how insurance companies create value from a financial economics perspective.</li> </ul>   |   |
| Syllabus Resources  |   |
| <ul style="list-style-type: none"> <li>• LFV-106-07: Chapter 4 of <i>Insurance Industry Mergers &amp; Acquisitions</i> (Formerly ILA-C106-07)</li> <li>• LFV-128-13: <i>Life Insurance Products and Finance</i>, Atkinson and Dallas, Ch. 16</li> <li>• LFV-807-09: Market Value Margins for Insurance Liabilities in Financial Reporting and Solvency Applications, October 2007 (pp. 2-65 only) (Formerly ILA-C807-09)</li> <li>• LFV-815-13: Understanding Profitability in Life Insurance, Sigma #1/2012, Swiss Re</li> <li>• <a href="#">Stochastic Analysis of Long Term Multiple-Decrement Contracts</a>, Actuarial Practice Forum, Jan 2008 (Exclude Appendices)</li> <li>• <a href="#">“Strategic Management of Life Insurance Company Surplus,”</a> TSA XXXVIII (pages 105-116)</li> <li>• <a href="#">Sources of Profit Paper</a>, 1996 Val Act Symposium (pages 147-162)</li> <li>• <a href="#">Embedded Value: Practice and Theory, SOA, Actuarial Practice Forum</a>, March 2009</li> </ul> |   |

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|---|---|
| Exam: ILA - LFV   | TOPIC: <b><u>Financial and Capital Management</u></b> |
| Learning Objectives   |   |
| <b>5. The candidate will understand the Risk Based Capital (RBC) regulatory framework and the principles underlying the determination of Regulatory RBC and Economic Capital</b>  |   |
| 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"> <li>i) Identification of significant risk components</li> <li>ii) Identification of specialized product RBC requirements</li> <li>iii) Interpreting results from a regulatory perspective</li> <li>iv) Implementation under US principle-based approach</li> </ul> <p>C. Explain and describe the concept and roles of Economic Capital including:</p> <ul style="list-style-type: none"> <li>i) Identification of the significant risk components</li> <li>ii) Selecting calculation methods appropriate to stakeholder's perspectives</li> <li>iii) Describing how a company would implement an Economic Capital Program</li> </ul> |   |
| Syllabus Resources  |   |
| <ul style="list-style-type: none"> <li>• <i>Valuation of Life Insurance Liabilities</i>, 4<sup>th</sup> Edition, Lombardi, Ch. 16 (excl. 16.6)</li> <li>• LFV-121-08: Economic Capital Modeling: Practical Considerations (pp. 4-34 only) (Formerly ILA-C121-08)</li> <li>• LFV-808-13: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities (Formerly ILA-C808-13)</li> <li>• LFV-813-13: U.S. Insurance Regulation Solvency Framework and Current Topics (Formerly ILA-C-813-13)</li> <li>• LFV-816-13: Regulatory Issues in Insurance, Sigma #3/2010 Swiss Re (pages 3-24)</li> <li>• <a href="#">Economic Capital for life Insurance Companies</a>, SOA Research paper, Feb 2008, Chapters 1 and 3-6</li> <li>• <a href="#">A Multi-Stakeholder Approach to Capital Adequacy</a>, Conning Research</li> </ul>   |   |

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| Exam: ILA - LFV  | TOPIC: Reinsurance |
| Learning Objectives  |                    |
| <b>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.</b>  |                    |
| 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"><li>• <i>Life, Health and Annuity Reinsurance</i>, Tiller, 3<sup>rd</sup> Edition, Ch. 4-6, 10, 12, 13</li><li>• <a href="#">ASOP #11: The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements</a> (excluding Transmittal Memo and Appendices)</li></ul> |                    |

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| Exam: ILA - LFV  | TOPIC: Professional Considerations |
| Learning Objectives  |                                    |
| <b>7. The candidate will understand the professional standards addressing financial reporting and valuation.</b>   |                                    |
| Learning Outcomes  |                                    |
| <p>The candidate will be able to:</p> <p>A. Explain the role and responsibilities of the appointed / valuation actuary.</p> <p>B. Identify and apply relevant professional actuarial qualification standards.</p> <p>C. Identify and apply actuarial standards of practice relevant to financial reporting and valuation.</p> <p>D. Explain the actuary's professional responsibilities to stakeholders including obligations under Sarbanes-Oxley.</p>  |                                    |
| Syllabus Resources   |                                    |
| <ul style="list-style-type: none"><li>• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4<sup>th</sup> Edition, Ch. 15</li><li>• LFV-804-07: NAIC Actuarial Opinion and Memorandum Regulation (Formerly ILA-C804-07)</li><li>• "<a href="#">Actuarial Aspects of SOX 404</a>", Financial Reporter, Dec 2004</li><li>• "<a href="#">Responsibilities of the Actuary for Communicating Sarbanes-Oxley control: Effectiveness in Accordance with Actuarial Standards of Practice</a>", Financial Reporter, Dec 2004</li><li>• <a href="#">ASOP 41 - Actuarial Communication</a> (excluding Transmittal Memo and Appendices)</li><li>• <a href="#">ASOP 21 - Responding to the Auditor</a> (excluding Transmittal Memo and Appendices)</li></ul> |                                    |