

# ILA – Life Finance & Valuation, US Exam

Spring/Fall 2016

## 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 the SOA website.

### [Updates](#)

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

**Individual Life and Annuity Life Finance & Valuation – U.S.  
Spring and Fall 2016**

Exam: ILA - LFV	TOPIC: <b>Accounting, Financial Statements and Disclosures</b>
Learning Objectives	
<b>1. The candidate will understand U.S. life insurance company financial statements and reports</b>	
Learning Outcomes	
The candidate will be able to:	
<ul style="list-style-type: none"> <li>a. Construct, analyze and evaluate basic U.S. GAAP, Statutory, and Tax financial statements for a life insurance company</li> <li>b. Explain the purpose of U.S. Annual Statement and major exhibits and schedules</li> <li>c. Describe, apply and evaluate regulatory documentation and disclosure requirements</li> <li>d. Describe, apply and evaluate the appropriate accounting treatments for insurance products, separate accounts, assets, and derivatives</li> <li>e. Apply and recommend methods for performing reviews of financial statements including reserves</li> </ul>	
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, 15</li> <li>• <i>US GAAP for Life Insurers</i>, Herget et. Al., Ch. 13 (Excl. 13.7), Ch. 14</li> <li>• LFV-100-07: Financial Reporting Developments Accounting for Derivative Instruments and Hedging Activities: A Comprehensive Analysis of FAS 133 Overview and Appendix C only.</li> <li>• LFV-102-09: Actuarial Review of Reserves and Other Annual Statement Liabilities (exclude appendices)</li> <li>• LFV-800-07: IASA , 2001 Chapter 12 (up to page 15 and pages 32-33 only) IMR &amp; AVR &amp; Federal Income Taxation</li> <li>• LFV-804-16: Actuarial Opinion and Memorandum Model Regulation (NAIC)</li> <li>• LFV-819-16: Greenwich Treasury – Derivative Accounting &amp; Hedging</li> <li>• <a href="#">ASOP 10</a> Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance With GAAP (excluding Transmittal Memo and Appendixes)</li> <li>• <a href="#">ASOP 11</a>:The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements (excluding Transmittal Memo and Appendixes)</li> <li>• <a href="#">ASOP 21</a>: Responding to the Auditor (excluding Transmittal Memo and Appendixes)</li> <li>• <a href="#">ASOP 41</a>: on Actuarial Communication (excluding Transmittal Memo and Appendixes)</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="#">AICPA Releases SOP 05-1- Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts</a>, Financial Reporter, March 2006</li> </ul>	

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Exam: ILA - LFV	TOPIC: Valuation
Learning Objectives	
<b>2. The candidate will understand valuation principles and methods of individual life insurance and annuity products issued by U.S. life insurance companies.</b>	
Learning Outcomes	
As applicable to the valuation of U.S. GAAP, Statutory, and Tax reserves, the candidate will be able to:	
a) Compare and apply methods for life and annuity product reserves	
b) Evaluate, calculate, and interpret liabilities and DAC assets.	
c) Recommend and justify appropriate valuation assumptions.	
Syllabus Resources -	
<ul style="list-style-type: none"><li>• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4<sup>th</sup> Edition, Ch. 1, and 4-12</li><li>• <i>US GAAP for Life Insurers</i>, Herget et. Al., Ch., 3, 4, and 6-9</li> <li>• LFV-133-16: Cluster Analysis: A Spatial Approach to Actuarial Modeling, Milliman, 2008</li><li>• LFV-800-07: IASA Chapter 8, pages 12-16 and Ch. 12, pp.1-15 and 32-33</li><li>• LFV-802-07: <i>U. S. Tax Reserves for Life Insurers</i> Chapter 2, Tax-Basis Reserves Generally Chapter 7 section 807(f) and Changes in the Computation of Reserves</li><li>• LFV-803-14: NAIC Standard Valuation Law</li><li>• LFV-811-10: Actuarial Guideline XXXV on Annuities (NAIC)</li><li>• LFV-812-10: A Discussion of Actuarial Guideline 43 for Variable Annuities, Milliman Research Report, April 2009</li><li>• LFV-820-16: Transamerica Term Life: Understanding Post-Level Experience</li><li>• LFV-821-16: Insurance Contract Modifications or Exchanges pp. 1-3, E&amp;Y, 2012</li><li>• LFV-822-16: Study Note on Actuarial Guidelines 38 and 48</li> <li>• <a href="#">ULSG AG38 Valuation Research Report</a>, The Financial Reporter, June 2013, pp. 1, 4-7</li><li>• <a href="#">Model Efficiency Study Results</a>, pp.44-50, SOA Research, 2011</li></ul>	

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EXAM: ILA - LFV	TOPIC: <b>Emerging Standards</b>
Learning Objectives	
<b>3. The candidate will understand and apply emerging financial and valuation standards, principles and methodologies.</b>	
Learning Outcomes	
The candidate will be able to:	
a) Describe, evaluate and calculate the impact on reserves, income, capital, and processes of emerging developments in Statutory and U.S. GAAP reporting, International Financial Reporting Standards, and Solvency Modernization.	
b) Compare and contrast rules-based and principles-based approaches.	
Syllabus Resources -	
<ul style="list-style-type: none"><li>• LFV-132-14: Practical Guide to IFRS, PwC, exclude appendices 1,2,and 4 (July 2013)</li><li>• LFV-134-16: Ready or Not, Here it Comes, include Appendix 2, PWC</li><li>• LFV-135-16: How we Responded to Feedback on the 2013 Exposure Draft, IASB</li><li>• LFV-808-16: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities</li><li>• LFV-823-16: ORSA Guidance Manual, NAIC, 2014</li><li>• LFV-824-16: Model Risk Mitigation and Cost Reduction Through Effective Documentation, PWC, 2013</li><li>• LFV-825-16: The Long and Winding Road – The IASB’s Project on Insurance Contracts, IASB, 2013</li><li>• LFV-826-16: ARWG Report to LATF’s VM-22 Annuity Subgroup, AAA , 2013</li> <li>• <a href="#">Analysis of Methods for Determining Margins for Uncertainty Under a Principle-Based Framework for Life Insurance and Annuity Products</a>, Ch. 3, 4, 5.1, 5.5-5.6, 6</li><li>• <a href="#">An Approach for measurement of the Fair Value of Insurance Contracts</a>, Gutterman, et al., Actuarial Practice Forum, May 2007</li><li>• <a href="#">Fair Value Accounting: Trouble-maker or Life-saver?</a>, Financial Reporter, April 2009</li><li>• <a href="#">Use of Stochastic Techniques to Value Actuarial Liabilities Under Canadian GAAP</a>, CIA, 2001</li></ul>	

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EXAM: ILA - LFV	TOPIC: <b>Financial and Capital Management</b>
Learning Objectives	
<p><b>4. The candidate will understand basic financial management, capital management and value creation principles and methods in a life insurance company context.</b></p>	
Learning Outcomes	
<p>The candidate will be able to:</p> <ol style="list-style-type: none"> <li>a) Assess financial performance, including analyzing and interpreting the financial performance of a product line or company.</li> <li>b) Apply methods and principles of embedded value.</li> <li>c) Explain and apply methods in determining risk based capital and economic capital.</li> <li>d) Explain and evaluate the respective perspectives of regulators, investors, policyholders and insurance company management regarding the role and determination of capital.</li> <li>e) Explain the U.S. Risk Based Capital (RBC) regulatory framework and principles.</li> <li>f) Explain and apply methods in earnings management and capital management.</li> </ol>	
Syllabus Resources -	
<ul style="list-style-type: none"> <li>• <i>Valuation of Life Insurance Liabilities</i>, Lombardi, 4<sup>th</sup> Edition, Ch. 16, sections 16.1-5</li> <li>• LFV-106-07: Chapter 4 of Insurance Industry Mergers &amp; Acquisitions (Sections 4.1-4.6)</li> <li>• LFV-131-14: Economic Capital Overview: Chad Runchey, August, 2012</li> <li>• LFV-136-16: <i>Life Insurance Products and Finance</i>, Atkinson and Dallas, Chapter 11, pp. 499-502</li> <li>• LFV-137-16: EVARAROC vs. MCEV Earnings – A Unification Approach, Kraus, 2011</li> <li>• LFV-138-16: Prudential Financial Stockholder’s Equity and Operating Leverage, HBR, 2008</li> <li>• LFV-807-09: Market Value Margins for Insurance Liabilities in Financial Reporting and Solvency Applications, October 2007 (p. 2-41 and 46-65 only)</li> <li>• LFV-808-16: Fundamentals of the Principle-Based Approach to Statutory Reserves and Risk Based Capital for Life Insurance and Annuities</li> <li>• LFV-813-13: U.S. Insurance Regulation Solvency Framework and Current Topics</li> <li>• LFV-815-13: Understanding Profitability in Life Insurance</li> <li>• LFV-816-13: Regulatory Issues in Insurance, Sigma #3/2010 Swiss Re (pages 3-24)</li> <li>• LFV-818-16: Introduction to Source of Earning Analysis, July, 2015</li> <li>• LFV-827-16: Financial Reinsurance to Address GAAP Earnings Volatility, SCOR, 2014</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> <li>• <a href="#">Stochastic Analysis of Long Term Multiple-Decrement Contracts</a>, Clark and Runchey, 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="#">Embedded Value: Practice and Theory</a>, SOA, <i>Actuarial Practice Forum</i>, March, 2009</li> <li>• <a href="#">ULSG AG38 Valuation Research Report</a>, The Financial Reporter, June 2013, pp. 1, 4-7</li> </ul>	

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EXAM: ILA - LFV	TOPIC: Reinsurance
Learning Objectives	
<b>5. The candidate will understand the nature and uses of basic reinsurance arrangements used by life insurance companies</b>	
Learning Outcomes	
The candidate will understand the various forms of reinsurance, and be able to, with respect to both the ceding and assuming parties, analyze and evaluate: <ul style="list-style-type: none"><li>i) Risk transfer considerations</li><li>ii) Cash flow mechanics</li><li>iii) Accounting and financial statement impacts</li><li>iv) Reserve credit considerations</li></ul>	
Syllabus Resources -	
<ul style="list-style-type: none"><li>• <i>Life, Health and Annuity Reinsurance</i>, Tiller, 3rd Edition, Ch. 4-6, 10, 12. <b>Candidates may also use the 4<sup>th</sup> edition</b>, Ch. 4, Ch. 5 pp. 105-149 only, Ch. 7 pp. 181-192 only, Ch. 8, Ch. 11 and Ch. 13.</li><li>• <i>US GAAP for Life Insurers</i>, Herget et. Al., Ch. 17.4 to 17.7 (pp. 527-561)</li></ul>	