Thank you for purchasing this flashcard set. It covers the syllabus material for the ILA – CSP exam that is unique to the U.S. specialty. Syllabus material coverage is sorted by Learning Objective. Page numbering is done by section consistent with the core flashcard set, and picks up where that set leaves off so that you can easily merge this set into the core card set if you so choose.

Please tell us what you like and don't like about these cards. It will help use achieve our goal of continuous product improvement.

Good luck with the exam!

ACTEX Publications, Inc.

# Components of GAAP Income

- Revenues
    - Premiums
    - Policyholder charges
    - Realized capital gains and losses
    - Investment income
- Expenses
    - Death claims
    - Surrenders
    - Expenses
    - Commissions
    - Change in reserves
    - Policyholder dividends
- Net income before tax
- Federal income tax
- Net income after tax
- Extraordinary items
- Net income after extraordinary items

GAAP text Ch. 1, pg 7

# GAAP Issues Unique to Mutual Life Insurers

- Addressed by FASB 120

- No owners, so no shareholder dividends

- No owner transactions

- Mutual holding companies can own stock companies that have owner transactions

- Participating business reinsured is generally not effected by FASB 120

GAAP text Ch. 1, pg 16; Reinsurance text Ch. 13, pg 379

# Techniques for Fair Value Determination

- Market approach – uses information generated by comparable transaction in the principal market, or if none, the advantageous market

- Income approach – converts future amounts to a single present value

- Cost approach – cost to replace the service capacity of an asset

SFAS 157 pp 7-8
ILA-C809-09 pg 2
ILA-810-10 pp 8-9

# Benefit Reserve Methodology Under SFAS 60

- Short-duration
  - Premiums are revenue
  - Liability for unpaid claims & claim adjustment expenses accrued when insured event occurs
- Long-duration
  - Premiums are revenue when due
  - Liability for expected costs accrued over the current and renewal periods
  - Present value of future benefits in excess of future net premiums (using estimates of future experience) recorded when premium recognized
  - Liability for unpaid claims & claim adjustment expenses accrued when insured event occurs

GAAP text Ch. 4, pp 82-83; Reinsurance text Ch. 13, pg 372

# DAC Amortization Under SFAS 91

Solve for interest rate where beginning notional account value (*NAV*) =

$$\text{Initial policy value}(PV) - \frac{\Sigma CAP_s}{\Pi(1+i_z)}$$

For *s*=1 to *n* and *z*=0 to *s*-1

$$NAV_t = (NAV_{t-1} - CAP_t) \times (1 + j_t)$$

$$DAC_t = (PV_t - NAV_t)$$

GAAP text Ch. 7, pg 217

# Dynamic Valuation Interest Rates

- Specifies maximum valuation rate by formula, based on market conditions at the time of issue
- $i_{CY} = .03 + w_1 \cdot (r_{\substack{1 \\ CY}} - .03) + .5 \cdot w_2 \cdot (r_{\substack{2 \\ CY}} - .09)$, where
    - CY=calendar year
    - $w_1, w_2$ = weighting factors
    - $r_{CY}$ =reference interest rate
    - $r_{\substack{1 \\ CY}} = Min(r_{CY}, .09)$
    - $r_{\substack{2 \\ CY}} = Max(r_{CY}, .09)$

Standard Valuation Law pg 820-8
Valuation text Ch. 4, pg 56