

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

Spring 2022/Fall 2022

## 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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**1. Topic: US GAAP Financial Reporting and Valuation**

**Learning Objectives**

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.

**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 (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

**Resources**

- [LFMU GAAP Materials Flowchart, 2020](#)
- [Targeted Improvements Interactive Model](#)
- *US GAAP for Life Insurers*, Herget et al., 2<sup>nd</sup> Edition, 2006
  - Chapter 3: Expenses and Capitalization (excluding 3.7.1, 3.7.3, 3.11.4.5 & 3.12)
  - Chapter 4: Traditional Life Insurance (SFAS 60 & 97) (excluding 4.4-4.14)
  - Chapter 6: Universal Life Insurance (excluding 6.7-6.7.1.6, 6.7.3-6.7.6.3 & 6.10-6.13.2)
  - Chapter 7: Deferred Annuities (excluding 7.4.1d, 7.6, 7.8, 7.10, 7.11, 7.13)
  - Chapter 9: Annuities in Payment Status (excluding 9.5)
  - Chapter 13: Investment Accounting (excluding 13.7 & 13.12)
  - Chapter 15: Accounting for Business Combinations (excluding 15.7.3-15.7.8 & 15.10.5-15.15)
  - Chapter 18: Other Topics: Deferred Taxes and Fair Value Reporting (excluding 18.2, 18.4 & 18.6)
- LFM-149-22: Insurance Contracts, PwC (Accounting Guide for Insurance Contracts), 2020, Sections 1.1-1.3 (pp. 1.2-1.9), 2.1-2.5 (pp. 2.2-2.21), 3.1-3.9 (pp. 3.2-3.48) & 5.1-5.10 (pp. 5.2-5.56) and Figures IG 2-1 (pp. 2.4-2.6) & IG 2-2 (pp.2.15-2.18)
- LFM-840-20: A Comprehensive Guide - Derivatives and Hedging, E&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)

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- LFM-841-20: A Closer Look at How Insurers Will Have to Change their Accounting and Disclosures for Long-Duration Contracts, E&Y, Nov 2018
- LFM-848-22: A Comprehensive Guide – Reinsurance, 2020, (sections 1, 2, 4, 7, Appendix D)
- [Implementation Considerations for VA Market Risk Benefits](#), Financial Reporter, Sep 2019

## 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

- [LFMU PBR Materials Flowchart, 2020](#)
  - [Interactive Principle-Based Reserves Model](#)
  - *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

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- Chapter 20: Indexed Deferred Annuities
- Chapter 21: Immediate Annuities
- Chapter 22: Miscellaneous Reserves (excluding 22.3-22.4)
- Chapter 23: PBR for Life Products (excluding 23.1)
- Chapter 24: Addendum for Variable Annuity PBR Updates

**NOTE: The addendum is available from ACTEX to candidates who have purchased the book.**

- 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 (excluding Dividends Received Deduction and Operations Loss Deduction subsections under the General Deductions section, the Special Deduction – Small Life Insurance Company Deduction section, and Dividends Received Deduction subsection under the Investment Accounting Rules section)
- 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-843-20: NAIC Life Insurance Illustrations Model Regulation
- LFM-844-22: Life Principle-Based Reserves Under VM-20, AAA Practice Note (required questions are listed on the first page of this study note)
- LFM-849-22: Implementation of Requirements for Principle-Based Reserves for Variable Annuities – 2021 Edition of VM-21 (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](#), Section 3
- [Impacts of AG 48](#), Financial Reporter, Dec 2015
- [PBA Corner](#), Financial Reporter, Jun 2016
- [Reporting and Disclosure Requirements Under VM-31: Reporting Requirements for Business Subject to PBR](#), Financial Reporter, Sep 2017
- [What's in the "A" of AG 49-A](#), Product Matters, Feb 2021

<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>• LFM-846-20: <a href="#">Company Tax – Introductory Study Note</a></li><li>• LFM-850-22: Changes to Section 7702 (IRC) and Nonforfeiture Interest Rates</li><li>• <a href="#">Rightsizing the Floor Interest Rate Rules of Sections 7702 and 7702A</a>, Taxing Times, March 2021</li><li>• <a href="#">The Tax Cuts and Jobs Act of 2017— Effects on Life Insurers</a>, American Academy of Actuaries, Oct 2020</li><li>• <a href="#">The Impact of BEAT on U.S.-Foreign Affiliated Reinsurance</a>, Taxing Times, Dec 2020</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-151-22: IAIS—International Capital Standard, ComFrame, Holistic Framework for Systemic Risk in the Insurance Sector, pp. 1-3 &amp; 8-28</li><li>• LFM-847-20: Life Insurance Regulatory Framework, OSFI, 2012</li><li>• LFM-851-22: OSFI Guideline – Life Insurance Capital Adequacy Test (LICAT), Oct 2018, Ch. 1 only</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>• LFM-852-22: Group Capital Calculation: Public Summary, National Association of Insurance Commissioners, Dec 2020</li><li>• LFM-853-22: Group Capital Calculation: Pictorial, National Association of Insurance Commissioners, Dec 2020</li><li>• LFM-854-22: NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual, National Association of Insurance Commissioners, Dec 2017</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><li>• <a href="#">ASOP 55 – Capital Adequacy Assessment</a>, section 3 &amp; Appendix 1 only</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) Model Audit Rule and Sarbanes-Oxley Section 404 considerations</li><li>g) Source of Earnings analysis</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-138-16: Prudential Financial Stockholder's Equity and Operating Leverage, HBR, 2008</li><li>• LFM-147-20: A.M. Best's - Compendium of Publications</li><li>• LFM-150-22: Captive Insurance Companies, NAIC, Feb 2021</li><li>• LFM-152-22: Introduction to Source of Earnings Analysis (excluding Appendices)</li><li>• LFM-855-22: Sarbanes-Oxley Section 404: A Toolkit for Management and Auditors</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>