



# SOCIETY OF FINANCIAL EXAMINERS®

## *Supplemental Background Material*

NAIC Examiner Project

### **Course AFE 1**

### **Life and Health Insurance Fundamentals**

(Passing grade for this exam is 60)

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**Life and Health Insurance Fundamentals**

Unit:	1
Topic:	Basic Principles and an Overview of Life Insurance Fundamentals
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To introduce the new examiner to the basic principles on which life and health insurance are based; to provide an introductory overview of life insurance products and pricing concepts; to provide an overview of the role of life insurers as financial institutions.
Assigned Readings:	Black & Skipper Chapter 2 - Life and Health Insurance Pricing Fundamentals Chapter 3 - The History, Role, and Importance of Life and Health Insurance

*Assignment Outline:*

**Basic Principles and an Overview of Life Insurance Fundamentals**

I. Principles of Insurance

- A. Insurance Defined
- B. Law of Large Numbers
- C. Nature of Perils Insured
- D. Gambling and Insurance

II. Pricing Individual Life and Health Insurance

- A. Life and Health Insurance Pricing Objectives
- B. Life and Health Insurance Pricing Elements
- C. Life Insurance Rate Computation

1. Yearly Renewable Term Life Insurance
2. The Single-Premium Plan
3. The Level-Premium Plan
  - a. Net Level Premium Calculation
  - b. Net Amount at Risk
4. The Flexible Premium Plan

### III. Experience Participation In Insurance

- A. Guaranteed-Cost, Nonparticipating
- B. Participating
- C. Current Assumption

### IV. Interaction Among Insurance Pricing Elements

- A. The Asset Share Calculation
- B. Relation of Cash Surrender Values, Reserves, and Asset Shares

### V. Life Insurance Internationally

- A. The Advantages of an International Perspective
- B. Intergovernmental Trading Arrangements
- C. The Importance of Life Insurance Worldwide

### VI. Factors Affecting Life and Health Insurance Consumption

- A. Price
- B. The Economic Environment
- C. The Demographic Environment
- D. The Social Environment
- E. The Political Environment

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**Life and Health Insurance Fundamentals**

Unit:	2
Topic:	The Life Insurance Product Environment and Term and Endowment Life Insurance
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To review the environmental influences causing recent and possible future innovations in life insurance product design and the general nature of the innovations made to date; to acquaint the examiner with the features and uses of term life insurance and the features of endowment insurance.
Assigned Readings:	Black & Skipper Chapter 4 - Introduction to Life and Health Insurance Products

*Assignment Outline:*

**The Life Insurance Product Environment, and Term and Endowment Life Insurance**

- I. Recent Life Insurance Product Innovations
  - A. Insurance Company Reactions
    - 1. Potentially Lower Cost
      - a. Indeterminate Premium Plans
      - b. More Refined Classification Systems
      - c. Provision to Encourage Persistency
    - 2. Increased Flexibility
    - 3. Greater Disclosure
  - B. Increased Risk to Consumers

### III. Term Life Insurance

#### A. Nature of Term Life Insurance

1. Renewability
2. Convertibility
3. Reentry

#### B. Types of Term Life Insurance Policies

1. Level Face Amount Policies
  - a. Increasing Premium Policies
  - b. Policies with Other Premium Patterns
2. Non-Level Face Amount Policies

#### C. Uses and Limitations of Term Insurance

### IV. Endowment Insurance

#### A. Nature of Endowment Insurance

1. Mathematical Concept
2. Economic Concept

#### B. Types of Endowment Policies

#### C. Uses and Limitations of Endowment Insurance

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**Life and Health Insurance Fundamentals**

Unit:	3
Topic:	Whole Life Insurance Policies
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the features of traditional and innovative whole life insurance products.
Assigned Readings:	Black & Skipper Chapter 5 - Whole Life Insurance Policies

*Assignment Outline:*

**Whole Life Insurance Policies**

1. The Nature of Whole Life Insurance

- A. Whole Life as Endowment or Term Insurance
- B. Whole Life Cash Values
- C. Par and Nonpar Whole Life

II. Types of Whole Life Insurance Policies

A. Ordinary Life Insurance

- 1. Product Design
- 2. Uses of Ordinary Life

B. Limited-Payment Whole Life Insurance

C. Current Assumption Whole Life (CAWL)

- 1. Product Design
- 2. Uses of CAWL

D.. Variable Life Insurance (VLI)

1. Product Design
2. Regulatory Developments

E. U.S. Securities Regulation

3. Policy Provisions
4. The Appropriateness of VLI

F. Other Forms of Whole Life Insurance

1. Modified Life
2. Enhanced Ordinary Life
3. Graded Premium Whole Life
4. Single Premium Whole Life
5. Indexed Whole Life

G. Special Purpose Life Insurance Policies

1. Debit Life
2. Family Policy or Rider
3. Juvenile
4. Pre-need Funeral Insurance
5. Survivorship
6. First to Die

III. Efforts to Enhance Value Within Existing Policies

- A. Unilateral Enhancements
- B. Bilateral Enhancements
- C. Policy Exchanges

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**Life and Health Insurance Fundamentals**

Unit:	4
Topic:	Flexible-Premium Insurance Policies
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the features, uses and limitations of flexible-premium and special purpose life insurance policies.
Assigned Readings:	Black & Skipper Chapter 6 – Universal Life Insurance Policies

*Assignment Outline:*

- I. Universal Life Insurance Policies
  - A. The Origins and Growth of Universal Life Insurance
  - B. The Nature of Universal Life Insurance
  - C. Universal Life Product Design
    - 1. Death Benefit Patterns
    - 2. Premium Payments
    - 3. Policy Loadings
    - 4. Mortality and Other Benefit Charges
    - 5. Cash Values
  - D. Uses and Limitations
- 11. Variable Universal Life Insurance
  - A. Nature of Variable Universal Life Insurance
    - 1. Cash Values
    - 2. Death Benefits
    - 3. Loadings and Expenses

B. Uses and Limitations

III. Other Flexible Premium Policies

A. Adjustable Life Insurance

B. Flexible Enhanced Ordinary Life

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**Life and Health Insurance Fundamentals**

Unit:	5
Topic:	Annuities and Optional Benefits
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the features, uses and limitations of various annuity products and optional benefits and riders.
Assigned Readings:	Black & Skipper Chapter 8 – Annuities and Benefits

*Assignment Outline:*

**Annuities and Optional Benefits and Riders**

I. Annuities

A. Nature of Annuities

1. Purpose of Annuities
2. Classification of Annuities
  - a. Number of Lives
  - b. Method of Premium Payment
  - c. Time When Income Payments Commence
  - d. Disposition of Proceeds
  - e. Denomination of Benefits
3. Nature of the Insurance Company's Obligations
  - a. Accumulation Period
  - b. Liquidation Period

B. Types of Annuity Contracts

1. Flexible Premium Deferred Annuity

2. Single Premium Deferred Annuity
3. Single Premium Immediate Annuity
4. Variable Annuity
  - a. Nature of the Variable Annuity
  - b. Regulation of the Variable Annuity
  - c. Suitability of Variable Annuities
5. Equity Indexed Annuity

C. Uses and Limitations of Annuities

II. Optional Benefits and Riders

A. Disability Benefits

1. Definition of Disability
2. Waiver of Premium
3. Disability Income

B. Accelerated Death Benefits

1. Terminal Illness Coverage
2. Catastrophic Illness Coverage
3. Long Term Care Coverage

C. Accidental Death Benefit

1. Definition of Accidental Death
2. Exclusions
3. Time and Age Limits

D. Guaranteed Insurability Option

E. Cost of Living Rider

F. Additional Insurance Coverage

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**Life and Health Insurance Fundamentals**

Unit:	6
Topic:	The Legal Environment and The Life Insurance Contract
Text Required:	Life & Health Insurance Kenneth Black, Jr.& Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the way the life insurance policy, as a contract, conforms to the rules of general contract law; to provide the examiner with a basic knowledge of the powers and responsibilities of the life insurance agent under agency law; to provide the examiner with an understanding of policy provisions protecting the policy owner, protecting the company, and pertaining to the beneficiary.
Assigned Readings:	Black & Skipper Chapter 9 - Life and Health Insurance Contracts: I Contract 10 - Life and Health Insurance Contracts: II

*Assignment Outline:*

**The Legal Environment and The Life Insurance Contract**

I. Introduction

- A. Economics and the Law
- B. Regulatory Control over Policy Provisions

II. The Insurance Policy as a Contract

- A. Distinguishing Characteristics of Insurance Contracts
- B. Formation of Insurance Contracts

- 1. Capacity of the Parties
- 2. Mutual Assent
  - a. Premium Receipts
  - b. Policy Effective Date

3. Consideration
4. Legal Purpose

C. Insurable Interest

1. Insurable Interest in One's Own Life
2. Insurable Interest in Another Person's Life
  - a. Family and Marriage Relationships
  - b. Creditor-Debtor Relationships
  - c. Business Relationships
3. The Time and Continuity of Insurable Interest

D. The Application and Its Interpretation

1. Concealment
2. Warranties
3. Representations

E. Rules of Contract Construction

1. Doctrine of Contra Proferentum
2. Doctrine of Good Faith and Fair Dealing
3. Reasonable Expectations Doctrine

F. Presumption of Death and Disappearance

G. Insuring Agreement

H. Effect of Failure to Read Application and Policy

I. Insurer's Liability for Delay, Improper Rejection, or Failure to Act

III. The Law as it Pertains to the Agent

- A. Powers of the Agent
- B. Policy Limitations
- C. Agent's Liability to Principal for Misconduct

IV. Provisions Protecting the Policyowner

- A. Entire Contract Clause
- B. Incontestable Clause
- C. Grace Period Provision
- D. Nonforfeiture Provision

- E. Reinstatement Clause
- F. Misstatement of Age or Sex Provisions
- G. Renewal Provisions

V. Provisions Protecting the Insurance Company

- A. Suicide Clause
- B. Delay Clause
- C. Exclusion and Hazard Restriction Clauses

VI. Provisions Providing Policyowner Flexibility

- A. The Beneficiary Clause
- B. Settlement Options
- C. Assignment Provision
- D. Change of Plan Provision
- E. Change of Insured Provision
- F. Nonforfeiture Options
- G. Policy Loan Clause
- H. Provision Regarding Surplus Distribution

VII. Creditor Rights In Life Insurance

- A. Rights of the Policyowner's Creditors
- B. Rights of the Beneficiary's Creditors
- C. Special Priorities and Constraints

## **Life and Health Insurance Fundamentals**

Unit: 7

Topic: Insurance Advisor, Company, and Policy Evaluation

Text Required: Life & Health Insurance  
Kenneth Black, Jr. & Harold Skipper, Jr.  
Thirteenth Edition  
(Prentice Hall, Inc., Englewood Cliffs, NJ)

Objectives: To provide the examiner with a knowledge of life insurance policy provisions that provide the policy owner flexibility; to acquaint the examiner with the key methods for making life insurance policy cost comparisons; to provide the examiner with an understanding of the current cost and benefit disclosure regulations.

Assigned Readings: Black & Skipper  
Chapter 11 – Insurance Advisor and Company Evaluation  
Chapter 12 – Life Insurance Policy Evaluation

### *Assignment Outline:*

- A. Settlement Options
  
- I. The Insurance Purchase Decision
  
- II Insurance Advisor Evaluation
  
- III Organizations Providing Life and Health Insurance
  - A. Commercial Life Insurance Companies
    - 1. Stock
    - 2. Mutual
  
  - B. Fraternal Benefit Societies
  - C. Savings Banks
  - D. Government

#### IV. Life Insurance Company Evaluation

- A. Ratings
- B. Risks
- C. Ratios

#### V. Life Insurance Policy Evaluation

- A. Introduction to Life Insurance Policy Evaluation
- B. Customer Evaluation
- C. Policy Evaluation
- D. The Need for Cost Comparisons
- E. Common Methods for Comparing Policy Costs
  - 1. Traditional Net Cost Method
  - 2. Interest Adjusted Net Cost Method
  - 3. Equal Outlay Method
  - 4. Cash Accumulation Method
  - 5. Comparative Interest Rate (Linton Yield) Method
  - 6. Internal Rate of Return
  - 7. Yearly Rate of Return Method
- F. Cost Analyses in Replacements
- G. Comparison Limitations

#### VI. Annuity Contract Cost Analysis

#### VII. Cost and Benefit Disclosure

- A. Background of Disclosure Issue
- B. NAIC Disclosure Requirements
  - 1. Disclosure Requirements
  - 2. The Buyer's Guide
  - 3. The Policy Summary
- C. Universal Life Disclosure Regulation
- D. Annuity Disclosure Regulation
- E. Disclosure for Variable Contracts
- F. Annual Statement Disclosure
- G. The Society of Financial Service Professional Questionnaires

## VI. Life Insurance Policy Replacement Regulation

- A. The 1970 and 1979 NAIC Model Replacement Regulations
- B. The 1984 NAIC Model Replacement Regulation
- C. The Replacement Debate

## **Life and Health Insurance Fundamentals**

Unit:	8
Topic:	Health Insurance Policies
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the various individual health insurance coverages available, and the related contract provisions, uses and tax-treatment.
Assigned Readings:	Black & Skipper Chapter 7 - Health Insurance Policies

### *Assignment Outline:*

#### I. Introduction

- A. Health Insurance Coverages
- B. Individual Versus Group Coverages

#### II. Individual Medical Expense Insurance

- A. Need for Individual Medical Expense Insurance
- B. Comprehensive Medical Insurance

- 1. Insuring Arrangements
- 2. Benefit Arrangements

#### C. Special Individual Insurance Coverages

- 1. Hospital Confinement Indemnity Policies
- 2. Government Supplemental Policies
- 3. Specified Disease Policies

#### III. Long-Term Care Insurance

- A. Coverage
- B. Benefits

- C. Premiums
- D. Renewability
- E. Regulation

#### IV. Disability Income Insurance

- A. Important Definitions
- B. Defining Disability
- C. Basic Components of the Benefit Provision
  - 1. The Elimination Period
  - 2. The Benefit Period
  - 3. The Benefit Amount
  
- D. Basic Benefit Arrangements
  - 1. Total Disability Benefit
  - 2. Waiver of Premium Benefit
  - 3. Other Benefits
  
- E. Supplemental Benefits
  - 1. Residual Disability Benefit
  - 2. Partial Disability Benefit
  - 3. Social Insurance Supplement
  - 4. Inflation Protection Benefits
  - 5. Provisions for Increased Future Benefit Amounts

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**Life and Health Insurance Fundamentals**

Unit:	9
Topic:	Life and Health Insurance Actuarial Principles
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the fundamentals of mortality and interest used in life insurance pricing, net premium concepts, and reserves.
Assigned Readings:	Black & Skipper Chapter 27 - Life and Health Insurance Actuarial Principles Chapter 28 - Net Premiums Chapter 29 - Life Insurance Reserves and Cash Values

*Assignment Outline:*

**Fundamentals of Life Insurance Actuarial Principles, Net Premiums and Reserves**

- I. Measurement of Risk in Life Insurance
  - A. The Laws of Probability
  - B. The Use of Probability to Forecast Future Events
  - C. The Law of Large Numbers
  - D. Distribution of Life Insurance Claims
  - E. Mortality Statistics
  - F. Mortality Table Construction
    - 1. Overview
    - 2. Derivation of Death Rates
  - G. Types of Mortality Tables
    - 1. Valuation versus Basic Tables
    - 2. Select, Ultimate, and Aggregate Tables
    - 3. Mortality Tables for Annuities
    - 4. Static Tables versus Tables with Projection
    - 5. Smoker versus Nonsmoker Tables
    - 6. Published Tables in Use Today

## H. Application of Laws of Probabilities to Mortality

### II. Underlying Principles

- A. Interest
- B. Annuities
- C. Assumptions Underlying Rate Calculations
- D. Interaction of Probability, Mortality, and Interest Concepts

### III. Net Single Premiums

- A. Calculation
- B. Term Insurance
- C. Whole Life Insurance
- D. Endowments
- E. Life Annuities

### IV. Net Level Premiums

- A. The Level Premium System
- B. Computation of the Net Annual Level Premium
- C. General Rule for Calculating the Net Level Premium
- D. Concepts Associated with the Calculation of Net Level Premiums for Term Insurance, Ordinary Life Insurance, Limited-Payment Whole Life Insurance, and Deferred Annuities

### V. Reserves

- A. Origin and Definition of the Policy Reserve
- B. Methods of Calculation
  - 1. Retrospective Method
    - a. Group Approach
    - b. Individual Approach
  - 2. Prospective Reserve
- C. Terminal, Initial, and Mean Reserves
- D. Significance of Actuarial Assumptions
  - 1. Mortality
  - 2. Interest
  - 3. Lapse or Withdrawal Rates

4. Plan of Insurance

E. Modified Reserves

1. Full Preliminary Term Method
2. Commissioner's Reserve Valuation Method

F. Other Types of Reserves

1. Premium Deficiency Reserves
2. Reserves for Individual Deferred Annuities
3. Reserves for Paid-up Contracts
4. GAAP versus Statutory Reserves

VI. Life Insurance Cash Values

- A. Concepts of Equity
- B. Reasons Justifying Paying Less Than the Asset Share
- C. Regulation of Policy Reserves and Cash Values

- 1 Background
2. The 1980 Valuation and Non-forfeiture Laws

- A. Changes from Earlier Laws
- B. Requirements
- C. Adjusted-Premium Method

3. Requirements for Nontraditional Products
4. The 1990 Standard Valuation Law Amendments

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**Life and Health Insurance Fundamentals**

Unit:	10
Topic:	Gross Premiums Rate Structure and Non-guaranteed Policy Elements; The Pricing of Health Insurance
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the nature and determination of life insurance cash values, gross premiums and non-guaranteed policy elements; to provide the examiner with a basic understanding of the principles and concepts of health insurance ratemaking, reserves, and surplus distribution.
Assigned Readings:	Black & Skipper Chapter 30 - Gross Premium Rate Structures and Non-guaranteed Policy Elements Chapter 31 - The Pricing of Health Insurance

*Assignment Outline:*

II. Life Insurance Gross Premiums

- A. General Considerations in Deriving Gross Premiums
  - 1. Basic Criteria and Parameters
  - 2. Nature of Insurance Company Expenses
  - 3. Nature of Loading
- B. Developing the Tentative Gross Premium Rate Structure
- C. Testing the Tentative Gross Premium Rate Structure
  - 1. Asset Share Model
  - 2. Profitability Measures
  - 3. Selection of Most Probable Assumptions
  - 4. Special Unbundled Product Pricing Considerations

#### D. Other Aspects

1. Fractional Premiums
2. Premium Rates Graded by Policy Size

### III. Surplus and Its Distribution

#### A. Nature and Sources of Surplus

#### B. Distribution of Surplus

1. Divisible Surplus
2. Frequency of Distribution
3. The Contribution Principle
4. The Three-Factor Contribution Method
  - a. The Formula Components
  - b. Interest, Mortality and Loading Factors
  - c. Dividend Pattern
5. Special Forms of Surplus Distribution
6. Practical Considerations

### IV. The Pricing of Health Insurance

#### A. Principles of Health Insurance Ratemaking

1. The Rating Process
2. Measures of Morbidity Experience
  - a. Unit Benefit Costs
  - b. Continuance Tables
  - c. Net Level Premiums
  - d. Loss Ratios
3. Gross Premiums
  - a. Factors Affecting the Premium
  - b. Derivation of the Gross Premium
4. Significance of Judgement

#### B. Annual Claim Costs

- C. Medical Expense Benefits
- D. Dependent Classifications
- E. Premium Rate Variables
- F. Managed Care Pricing
- G. Health Insurance Reserves and Other Liabilities
  - 1. Policy Reserves
    - a. Unearned Premium Reserves
    - b. Policy Reserves for Long-Term Health Insurance
  - 2. Claims Reserves and Liabilities
  - 3. Liability for Expenses
  - 4. Group Reserves and Liabilities
  - 5. Other Reserves and Liabilities
- H. Surplus Distribution
  - 1. Individual Policies
  - 2. Group Policies

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**Life and Health Insurance Fundamentals**

Unit:	11
Topic:	Life and Health Insurance Underwriting
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To provide the examiner with an understanding of life and health insurance underwriting principles and practices.
Assigned Readings:	Black & Skipper Chapter 25 - Life and Health Insurance Underwriting: I Chapter 26 - Life and Health Insurance Underwriting: II

*Assignment Outline:*

**Life and Health Insurance Underwriting**

I. Need for Underwriting

- A. Risk Pooling and Fair Prices
- B. The Importance of Information

II. Guiding Principles in Underwriting

- A. Large Standard Group
- B. Balancing the Size of Substandard Group
- C. Balance within Each Class
- D. Equity Among Insureds
- E. Social Acceptability
- F. Recognition of Underlying Mortality Assumptions

III. Factors Affecting Risk

- A. Life Insurance Underwriting Factors
- B. Health Insurance Underwriting Factors

V Sources of Information Concerning Life and Health Insurance Risk

1. The Application
2. The Medical or Paramedical Examination
3. Laboratory Testing
4. The Agent's Report
5. Attending Physician's Statement
6. Consumer Reports
7. The Medical Information Bureau

IV. Methods of Risk Classification

- A. Judgment Method of Rating
- B. Numerical Rating System
- C. Use of Computers in Underwriting

VI. Classifying Substandard Risks

A. Life Insurance on Substandard Risks

1. Incidence of Extra Mortality
2. Methods of Rating
  - a. Multiple Table Extra
  - b. Flat Extra Premium
  - c. Other Methods

B. Health Insurance on Substandard Risks

1. Exclusions
2. Extra Premiums
3. Modification of Type of Coverage
4. Renewal Underwriting

VII. Special Underwriting Practices

- A. Non-medical Life Insurance
- B. Guaranteed Issue Insurance
- C. Reinstatements and Policy Changes
- D. Highly Impaired Risks

VIII. Laws Affecting Underwriting

- A. The Fair Credit Reporting Act
- B. The NAIC Model Privacy Act
- C. Unfair Discrimination Laws and Regulations

#### IX. Reinsurance of Life and Health Insurance Risks

- A. Purposes of Reinsurance
- B. The Concept of Retention
- C. Reinsurance Arrangements
  - 1. Agreements
  - 2. Life Reinsurance Plans
  - 3. Health Reinsurance Plans
    - a. Proportional Reinsurance
    - b. Excess-of-Loss Reinsurance

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**Life and Health Insurance Fundamentals**

Unit:	12
Topic:	Group Insurance and Retirement Plans
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To provide the examiner with an understanding of the group insurance mechanism and its application to life and health insurance plans; to acquaint the examiner with the basic design of retirement plans and the funding instruments provided by insurance companies.
Assigned Readings:	Black & Skipper Chapter 18 - Group Insurance Chapter 19 - Health Care Plans I Chapter 20 – Health Care Plans II Chapter 21 – Retirement Plans

*Assignment Outline:*

**Group Insurance and Retirement Plans**

I. Group Insurance Fundamentals

A. Distinguishing Characteristics

1. Group Underwriting
  - a. Insurance Incidental to the Group
  - b. Flow of Persons Through the Group
  - c. Automatic Determination of Benefits
  - d. Minimum Participation by the Group
  - e. Third-Party Sharing of Cost
  - f. Efficient Administrative Organization
2. Group Policy
3. Lower Cost
4. Flexibility
5. Experience Rating

- B. Advantages and Limitations of the Group Mechanism
- C. Eligible Groups

## II. Group Life Insurance

### A. Nature of Coverage

1. Minimum Size and Proportion
2. Individual Eligibility Requirements
3. Duration of Coverage

### B. Benefits

1. Approaches to Benefit Amounts
2. Minimum and Maximum Amounts
3. Conversion Privilege
4. Waiver of Premium Benefits

### C. Plans of Insurance

1. Yearly Renewable Term Insurance
2. Supplemental Life Insurance
3. Credit Life Insurance

### D. Taxation of Group Term Life Insurance

### E. Post-retirement Coverage

### F. Provisions of Contracts and Certificates

### G. Supplemental Coverages

1. Accidental Death and Dismemberment Insurance
2. Survivor Income Benefits
3. Dependent Life Insurance

## III. Group Disability Income Insurance

### A. Short-Term Disability

### B. Long-Term Disability

### C. Taxation of Disability Income Insurance

#### IV. Alternatives for Group Benefit Plan Funding

##### A. Fully Insured Plan Variations

1. Retrospective Premium Arrangements
2. Cost Plus Funding
3. Extended Grace Period
4. Release of Reserves
5. Flexible Funding Life Insurance

##### B. Alternatives to Fully Insured Plans

1. Minimum Premium Plans
2. Administrative Services Only
3. Letters of Credit

#### V. The Health Care Environment

- A. Medical Care Cost Trends
- B. Causes of Health Care Inflation
- C. Employer Responses to Rising Costs
- D. Development of Managed Care

1. Characteristics of Managed Care
2. Growth in Managed Care

##### E. Federal Regulation

#### VI. Health Insurance Providers

- A. Commercial Insurance Companies
- B. Blue Cross and Blue Shield Plans
- C. Managed Care Organizations
- D. Self-Insured Plans
- E. Federal and State Governments

#### VII. Medical Expense Insurance Benefits

- A. Hospital Expense Benefits
- B. Surgical Expense Benefits
- C. Extended Care Services
- D. Other Medical Expense Benefits

#### VIII. Group Medical Expense Coverages

A. Major Medical Expense Plans

1. Supplemental Major Medical Plans
2. Comprehensive Major Medical Plans
3. Covered Expenses
4. Deductibles
5. Coinsurance
6. Maximum Benefit
7. Coordination of Benefits
8. Subrogation

B. Comprehensive Medical Expense Plans

IX. Cost Control Components

- A. Basic Cost Controls
- B. Second Surgical Opinions
- C. Pre-admission Testing
- D. Utilization Review
- E. Other Cost Control Programs

X. Flexible Benefit Plans

- A. Cafeteria Plans
- B. Flexible Spending Accounts
- C. Medical Savings Accounts

XI. Taxation of Group Health Insurance

- A. Medical Expense Insurance Benefits
- B. Disability Income Benefits
- C. Long Term Care Plans

XII. Pension Plan Design and Operation

- A. Coverage Requirements
- B. Normal Retirement Age
- C. Benefit Formula
- D. Maximum Benefits
- E. Supplemental Benefits
- F. Employee Contributions
- G. Vesting
- H. Methods of Distribution

XIII. Insured Pension Contracts

- A. Single-Premium Annuity Contracts
  - B. Level-Premium Annuity Contracts
  - C. Single-Premium Deferred Annuities
  - D. Deposit Administration Contracts
  - E. Immediate Participation Guarantee Contract
  - F. Special Investment Arrangements
- 1. Separate Accounts
  - 2. Guaranteed Investment Contracts

XIV. Other Retirement Plans

- A. Profit-Sharing Plans
- B. Stock Bonus Plans
- C. Employment Stock Ownership Plan
- D. Employee Savings Plans
- E. Thrift Plans
- F. 401(k) Plans

XV. Simplified Employee Pension Plans

XVI. Tax –Sheltered Annuities

XVII. Self-Employed Pension Plans

XVIII. Individual Retirement Accounts

Society of Financial Examiners  
**Life and Health Insurance Fundamentals**

Unit:	13
Topic:	Life Insurance Company Organization and Management; Life Insurer Financial Management
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with various aspects of the organization, general management and financial management of life insurance companies.
Assigned Readings:	Black & Skipper Chapter 23 - Life Insurance Company Organization and Management Chapter 33 - Life Insurer Financial Management II

*Assignment Outline:*

**Life Insurance Company Organization and Management; Life Insurer Financial Management**

- I. Life Insurance Company Formation
  - A. Stock Life Insurers
  - B. Mutual Life Insurers
- II. Holding Companies
- III. Corporate Governance
- IV. Conversion from One Type of Insurer to Another
  - A. Mutualization of Stock Insurers
  - B. Demutualization
- V. Home Office Organization and Administration
  - A. Levels of Authority

1. The Board of Directors
2. Executive Officers
3. Departmentalization

B. Administration

1. Policyowner Service
2. Claims Administration
3. Information Systems
4. Human Resources

VI. Life Insurer Management

- A. Strategic Management
- B. Planning and Control Cycle
- C. Value Based Planning

VII. Capital Management

A. Capital and the Risk of Insolvency

1. The Market Value of Capital
2. The Book Value of Capital
3. Required Capital
4. Growth Capital

B. Capital Planning Process

VIII. Managing Life Insurance Cash Flow

- A. Segmentation by Product Line
- B. Liability Cash Flows
- C. Asset Cash Flows
- D. Interest Rate Sensitivity Analysis
- E. Applications of Cash Flow Analysis

IX. Financing Life Insurance Companies

Unit:

Topic: Life Insurance Company Organization and Management; Life Insurer Financial Management

Text Required: Life & Health Insurance  
Kenneth Black, Jr., & Harold Skipper, Jr.  
Thirteenth Edition  
(Prentice Hall, Inc., Englewood Cliffs, NJ)

Objectives; To describe ways that life and disability insurance can address problems Arising from the death or disability of;  
A. the sole proprietor of a firm  
B. a partner in a firm  
C. a majority shareholder in a firm

Assigned Readings; Black & Skipper Chapter 17 – Business Planning

Assignment Outline;

Business Planning

1. Business Continuation Arrangements

A. Sole Proprietorships

B. Partnerships

1. Partnership Buy and Sell Agreements
2. Use of Life Insurance
3. Use of Disability Income Insurance
4. The Tax Aspects of Partnership Buy and Sell Agreements
  - a. Life Insurance
  - b. Disability Income Insurance

C. Closely Held Corporations

Society of Financial Examiners  
**Life and Health Insurance Fundamentals**

Unit:	14
Topic:	Life Insurer Investment Management and Financial Reporting
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the various types of life insurer investments, the types of risk associated with those investments, and the strategies and techniques used to manage them; to provide the examiner with an introduction to the financial reports prepared by life insurers based on a variety of accounting methods to meet the varied information needs of regulators, investors, and others external to the firm; to acquaint examiners with the managerial accounting tools used for various planning and control activities by management.
Assigned Readings:	Black & Skipper Chapter 33 - Life Insurer Investment Management Chapter 34 - Life Insurer Financial Reporting

*Assignment Outline:*

**Life Insurer Investment Management and Financial Reporting**

I. Investment Management

A. Introduction

1. Life Insurer Investment Activity
2. Importance of Investment Performance
3. Establishing Investment Policies

B. Investment Risk

1. Special Characteristics of Life Insurer Investment Risk
2. The Forward Commitment Aspect of Interest Rate Risk

C. U.S. Life Insurance Industry Mix of Assets

D. Investment Asset Classes

1. Corporate Debt Obligations
  - (a) Corporate Bonds
  - (b) CMOs
  - (c) Regulation of Corporate Debt Obligations
2. Commercial Real Estate Mortgages
3. U.S. Government Securities
4. Corporate Equities
5. Investment Real Estate
6. Policy Loans
7. Risk Management Assets

E. Investment Portfolio Construction

1. Investment Performance Measurement
2. Portfolio Selection
3. The Construction Process
4. Bond Portfolio Management Techniques

F. Asset Quality and US Regulatory Initiatives

II. Life Insurer Financial Reporting

A. Financial Reports

1. External Users
2. Internal Users

B. Life Insurer SAP and GAAP

1. Objectives of Statutory Accounting Principles
2. Limitations of Statutory Accounting
3. Objectives of Generally Accepted Accounting Principles
4. Limitations of GAAP Accounting
5. SAP and GAAP Treatment of Accounting Items
  - a. Valuation of Assets
  - b. Valuation of Liabilities
  - c. Recognition of Income
  - d. Recognition of Expense

## C. The NAIC Annual Statement

### 1. The Balance Sheet

- a. Assets
- b. Liabilities
- c. Capital Stock and Surplus

### 2. Summary of Operations

- a. Income
- b. Disposition of Income
- c. Changes in Surplus Account

### 3. Cash Flow Statement

### 4. Supplementary Schedules and Exhibits

## D. Managerial Accounting

1. Budget Accounting
2. Cost Accounting
3. Audit and Control

## E. Economic Value Analysis

1. Value-Added Analysis
2. Return on Equity Analysis

## F. Regulatory Developments in Financial Reporting

1. The Valuation Actuary
2. Risk-Based Capital Requirements
3. Codification of Statutory Accounting Principles

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**Life and Health Insurance Fundamentals**

Unit:	15
Topic:	Marketing and Regulation of Life and Health Insurance
Text Required:	Life & Health Insurance Kenneth Black, Jr. & Harold Skipper, Jr. Thirteenth Edition (Prentice Hall, Inc., Englewood Cliffs, NJ)
Objectives:	To acquaint the examiner with the distribution systems, agency management systems and product development process employed by life and health insurers; to provide the examiner with a basic knowledge of the rationale for and areas of regulation of life and health insurance in the U.S.
Assigned Readings:	Black & Skipper Chapter 24 - Marketing Life and Health Insurance Chapter 54 - Regulation and Taxation of Life Insurance in the U.S.

*Assignment Outline:*

**Marketing and Regulation of Life and Health Insurance**

- I. Marketing Life and Health Insurance
  - A. Developing and Maintaining a Marketing Program
  - B. Distribution Systems
    - 1. Agency-Building Distribution
      - a. The Branch Office System
      - b. The General Agency System
      - c. Multiple-Line Exclusive Agency
    - 2. Non-agency-Building Distribution Systems
      - a. Brokerage
      - b. Personal-Producing General Agent
    - 3. Financial Institution Distribution
    - 4. Direct Response Distribution

## C. Compensation in Marketing

### 1. Management Compensation

- a. Basic Approach
- b. Current Developments

### 2. Marketing Intermediary Compensation

- a. Compensation in Agency-Building Distribution Channels
- b. Compensation in Non-Agency-Building Channels

## D. Product Development

1. Assessing the External Environment
2. The Product Design Process
3. The Implementation Process
4. Price Management
5. The Product Life Cycle

## II. Regulation

### A. Purpose of Government Intervention into Markets

1. The Efficiency Objective
2. Government Intervention and Market Imperfections

### B. Background of U.S. Insurance Regulation

1. Paul versus Virginia
2. South-Eastern Underwriters Case
3. The McCarran-Ferguson Act
4. The Efficacy of State Regulation

### C. Areas of Federal Insurance Regulation

### D. The Mechanism of State Regulation

1. The Legislative Branch
2. The Judiciary
3. The Executive Branch
4. National Association of Insurance Commissioners
  - a. Structure and Operation
  - b. The State Accreditation Program

## E. Areas of State Regulation

1. Organization and Licensing of Insurers
2. Unauthorized Insurance
3. Insurance Policy Regulation
  - a. Policy Forms
  - b. Rates
    - (1) Life Insurance
    - (2) Health Insurance
4. Marketing Practices
  - a. Licensing of Agents and Brokers
  - b. Unfair Trade Practices
  - c. Unfair Advertising Practices
5. Solvency Surveillance
  - a. Financial Statement Filings
    1. Minimum Capital and Surplus
    2. Risk-Based Capital Requirements
    3. The Insurance Regulatory Information System(IRIS)
  - b. Examinations
  - c. Enforcement and Surveillance
6. Mergers and Acquisitions
7. Rehabilitation and Liquidation
8. Life and Health Insurance Guaranty Associations
  - a. History
  - b. The NAIC Life and Health Insurance Guaranty Association Model Act
  - c. The Assessment Process

## F. Regulation in an Integrated Financial Services World

1. The Glass-Steagall Act
2. The National Bank Act and the Bank Holding Company Act
3. The VALIC and Barnett Decisions

## G. Taxation of US Life and Health Insurers

1. State Taxation

- a. Premium Taxation
- b. Income Taxation
- c. Retaliatory Taxation
- d. Other Taxation

## 2. Federal Taxation

- a. Taxable Income
- b. Policyowner Dividend Treatment
- c. The 1990 Deferred Acquisition Costs (DAC)