36. (1.5 points)

With regard to the Canadian Institute of Actuaries' publication "Educational Note: Discounting":

a. (0.5 point)

Explain the difference between "present value" and "actuarial present value."

b. (1 point)

Identify four considerations in the determination of return rate on assets underlying the discounting of policy liabilities.

END OF EXAMINATION

Actual candidate answer for full marks:

1) This is a subsequent event; however due to minimal exposure in Alberta, the impact is likely not material. You should still report the impact to the auditor whose materiality standard may differ.
2) This is a subsequent event resulting from a material error or omission. The actuary must take the missing data into account in the analysis. If the report was already completed, the actuary must withdraw the report and reissue a corrected version.
3) This is a subsequent event that retroactively makes the company different as at the calculation date. You must adjust the analysis to account for this change since the purpose of this analysis is to report on the insurer as they were at the calculation date.

Examiner's report:

A MQC should be able to identify which events would be considered subsequent events and explain the actions of the actuary. Candidates did very well on this question.

Question 36

Answer key:

a)

1) Present Value – the sum of expected future payments after recognizing the time value of money
2) Actuarial Present Value – the sum of the present value and the provision for adverse deviations

b)

1. The method of valuing assets and reporting investment income
2. The allocation of those assets and that income among lines of business
3. The return on the assets at the balance sheet date
4. The yield on assets acquired after the balance sheet date
5. The capital gains and losses on assets sold after the balance sheet date
6. Investment expenses and losses from default (C1 risk)

Actual candidate answer for full marks:

(a)

present value: the estimated cash flows of assets and liabilities discounted at the discount rate.

actuarial present value: the present value and also accounting for the provision for adverse deviations for claims development, reinsurance collectible and investment return rates

(b)

(1) method of valuing the assets and reporting investment income.
(2) return on assets at the balance sheet date
(3) yield of assets after the balance sheet date
(4) allocation of assets among lines of business

Examiner's report:

Some candidates had trouble defining the terms in part a) which should be basic actuarially knowledge. A number of candidates were confused by part b) of the question and it was therefore, not answered well.