

EXAM 6 – CANADA, SPRING 2014

33. (1.5 points)

a. (0.5 point)

Define “portfolio yield rate” according to the Canadian Institute of Actuaries’ “Educational Note: Discounting”.

b. (0.75 point)

Briefly describe three considerations when calculating a portfolio yield rate.

c. (0.25 point)

Briefly describe a situation in which the portfolio yield rate may be used as the discount rate for estimation of present value of ceded policy liabilities.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 33	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE: C1
SAMPLE ANSWERS	
Part a: 0.5 point(s)	
<i>The internal rate of return, that when applied to the cash flows of the company, produce the book value of the assets.</i>	
Part b: 0.75 point(s)	
<p>Sample 1:</p> <ul style="list-style-type: none"> • <i>Method for valuing assets</i> • <i>Return on asset at balance sheet date</i> • <i>Yield on assets acquired after balance sheet date</i> <p><u>Additional Accepted Answers</u></p> <ul style="list-style-type: none"> • <i>the method of valuing assets and reporting investment income,</i> • <i>the allocation of those assets and that income among lines of business,</i> • <i>the return on the assets at the balance sheet date,</i> • <i>the yield on assets acquired after the balance sheet date,</i> • <i>the capital gains and losses on assets sold after the balance sheet date, and</i> • <i>investment expenses, and losses from default (C1 risk)</i> • <i>Reinvestment Risks</i> • <i>Liquidation of Assets/Credit Risk</i> • <i>Market condition</i> • <i>Payment pattern</i> • <i>New money rate/risk-free interest rate</i> 	
Part c: 0.25 point(s)	
<i>When company's investments are sufficient to support gross policy liabilities.</i>	
EXAMINER'S REPORT	
Part a	
<ul style="list-style-type: none"> • Candidates are expected to understand the definition of portfolio yield rate. • Some candidates were not able to describe the full definition 	
Part b	
<ul style="list-style-type: none"> • Candidates are expected to know considerations in selecting a discount rate • There are many possible answers to this part, and candidates can draw answers from various parts of CIA Discounting paper. • Candidates generally scored well on this part 	
Part c	
<ul style="list-style-type: none"> • This part can be answered with common knowledge • Almost all candidates got full mark on this part 	