16. (1.5 points)

The following information is provided for a federally-regulated property and casualty insurance company as at December 31, 2018. All amounts are in thousands of dollars ($000s).

Net undiscounted policy liabilities	34,500
Net discounted policy liabilities excluding PfADs	31,600

PfADs

Claims development	4,100
Recovery from reinsurance ceded	220
Investment return rates	150

Other information:

- The reserve carried in the P&C Annual Return is $37,000.
- The future income tax rate is 35%.

a. (0.5 point)

Define the asset for future income taxes.

b. (1 point)

Calculate the estimated effect of discounting the asset for future income taxes.

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QUESTION 16	
TOTAL POINT VALUE: 1.5	**LEARNING OBJECTIVE(S): C1**
SAMPLE ANSWERS	
Part a: 0.5 point	
Sample • Asset for future income taxes is the prepayment of taxes as a result of the liabilities deducted for tax purposes being less than the amount reported on Balance Sheet • Asset arise when prepaid tax for claim liability that is less than booked value • An asset represents prepayment of tax arising from the tax credit taken for loss < Balance Sheet Loss	
Part b: 1 point	
Sample: PV factor = (31600+150) / (34500) = 0.9203 APV = 31600 + 4100 + 220 + 150 = 36070 [37000 – 0.95 x min(37000, 36070)] x 0.35 x (1-0.9203) = 76.25	
EXAMINER'S REPORT	
Candidates were expected to understand the impact of taxes on the financial statement pertaining to claims liabilities.	
Part a	
Candidates were expected to demonstrate an understanding of the temporary future tax difference that arises from the difference in the insurer's claim liabilities and the claim liabilities recorded in the annual statement. Common errors included: • Not pointing out that it is a temporary tax difference	

- Omitting to specify that the asset represents a prepayment of tax
- Not mentioning that the asset arises when comparing the claims liabilities calculated by actuary to the provision booked in the financial statement

Part b

Candidates were expected to calculate the impact of discounting the asset for future income taxes.

Common errors included:

- Not calculating the present value factor correctly
- Not including PfADs in the claim liabilities calculation
- Not applying the present value factor properly