SOCIETY OF FINANCIAL EXAMINERS®

Supplemental Background Material

AFE 1

Life and Health Insurance Fundamentals

(Passing grade for this exam is 70)

Please note that this study guide is a tool for learning the materials you need to effectively study for this examination. As new editions of the textbooks are published, the SOFE Testing committee makes every effort to update the page references in this guide, but it is not always possible to keep it current. Therefore, it is the student's responsibility to see the topic listed in the study guide and find it in the required textbooks. But if it is not on the page indicated, then you need to go the textbook's table of contents or index and locate the topic. If you are unable to locate the topic anywhere in the textbook you are using, please e-mail SOFE headquarters at info@sofe.org and tell us the topic you cannot locate, where that topic is in the study guide and what version of the textbook you are using.

The following textbooks are required for this course:

Life Insurance
Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition
(Lucretian, LLC, 2015)

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Unit # per this study guide	Name
	Section # 1 - (7 questions)
1	Chapter 1: The Economics of Life Insurance
1	Chapter 2: An Overview of Life Insurance
8	Chapter 12: The Regulation and Taxation of Life Insurance Companies
	Section # 2 - (17 questions)
2	Chapter 3: Personal Life Insurance Products: I
2	Chapter 4: Personal Life Insurance Products: II
2	Chapter 5: Life Insurance Policy Provisions and Riders
3	Chapter 6: Retirement Products
4	Chapter 7: Health Insurance Products I: Medical Expense Insurance
4	Chapter 8: Health Insurance Products II: Disability Income and Long Term Care Insurance
	Section # 3 - (8 questions)
5	Chapter 09: Life Insurer Management
6	Chapter 10: Life Insurance Marketing
7	Chapter 11: Life Insurance Underwriting
	Section # 4 - (8 questions)
9	Chapter 13: Life Insurer Financial Reporting and Supervision
9	Chapter 14: Life Insurer Financial Management
10	Chapter 15: Life Insurance Actuarial Fundamentals
10	Chapter 16: Life Insurance Actuarial Applications
	Section # 5 - (10 questions)
11	Chapter 17: Life Insurance Advisor and Company Evaluation
11	Chapter 18: Life Insurance Policy Evaluation I: Legal Aspects
11	Chapter 19: Life Insurance Policy Evaluation II: Performance Comparisons
12	Chapter 20: Personal Financial Planning
12	Chapter 21: – Life and Health Insurance Product Taxation
12	Chapter 22: Life Insurance in Estate Tax Planning
12	Chapter 23: Retirement Planning
12	Chapter 24: Life Insurance in Business Planning

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Life and Health Insurance Fundamentals

Unit:	1
Topic:	A History and Overview of Life Insurance
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To introduce the new examiner to the basic principles on which life and health insurance are based; to develop an understanding of the role and importance of life and health insurance in our society; and to provide an introductory overview of life and health insurance products and pricing concepts.
Assigned Readings:	Chapter 1 – The Economics of Life Insurance Chapter 2 – An Overview of Life Insurance

Assignment Outline:

Chapter 1 – The Economics of Life Insurance

A. Introduction
B. A Brief History of Life Insurance
C. The Language of Insurance
    1. Social versus Private Insurance
    2. Life versus Nonlife Insurance
    3. Personal versus Commercial Insurance
D. The Importance of Life Insurance
    1. Life Insurance Internationally
    2. The Role of Life Insurance in Economic Development
        a. Promotes Financial Stability
        b. Substitutes for and Complements Government Security Programs
        c. Facilitates and Motivates Savings
        d. Fosters a More Efficient Allocation of Capital
    3. The Costs of Insurance to Society

E. Life Insurance Markets
    1. Economic Efficiency as a Social Goal
    2. Imperfections in Insurance Markets
        a. Market Power
            i. Barriers to Entry or Exit
            ii. Economies of Scale or Scope
            iii. Product Differentiation and Price Discrimination
        b. Externalities
            i. The Nature of Externalities
            ii. Externalities and Insurance
        c. Free Rider Problems
        d. Information Problems
            i. Buyer Ignorance
            ii. Adverse Selection
            iii. Moral Hazard
            iv. Agency Problems
            v. Asymmetric Information Problems and Tradeoffs
    3. Why Private Markets Fail to Insure Some Exposures
    4. Determinants of Insurance Consumption
        a. Price
        b. Economic Factors
            i. Income and Wealth
            ii. Inflation
        c. Demographic Factors
        d. Social Factors
        e. Political and Legal Factors
        f. Globalization
F. Economic Concepts of Life Insurance Consumption
    1. The Concept of Human Capital
    2. The Human Life Value Concept
    3. Economic Theories of Consumption and Insurance
        a. Economic Theories of Consumption
        b. Consumption Theories and Insurance
G. Conclusion

Chapter 2 – An Overview of Life Insurance

A. Introduction
B. Means of Dealing with the Financial Consequences of Death
    1. Relatives
    2. Savings/Investments
    3. Employer-Provided Death Benefits
    4. Government-Provided Death Benefits
    5. Individual Life Insurance
C. Evaluation of Life Insurance as a Financial Instrument
    1. Advantages
    2. Costs
D. Policies Sold by Life Insurance Companies
    1. Mortality-Based Policies
        a. Life Insurance
            i. Term Life Insurance
            ii. Cash Value Life Insurance
        b. Annuities
    2. Morbidity-Based Policies
    3. Medical Expense Insurance
        a. Long Term Care Insurance
        b. Disability Income Insurance
E. Requisites for Private Insurance
    1. Large Number of Independent, Homogeneous Exposure Units
        a. Independent Exposure Units
        b. Homogeneous Exposure Units
        c. Large Number of Exposure Units
    2. Accidental Losses
    3. Payment Amounts Easily Determinable
    4. Economically Feasible Premiums

F. Introduction to Life Insurance Pricing

1. Pricing Objectives
    a. Adequacy
    b. Equity
    c. Economically Feasible
2. Pricing Elements
    a. Mortality Charges
    b. Interest Crediting Rate
    c. Loading Charges
    d. Persistency

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Life and Health Insurance Fundamentals

Unit:	2
Topic:	Life Insurance Products
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of the main types of life insurance policies sold by life insurance companies; to familiarize the examiner with the form and content of life insurance policies; and to identify common riders that may be optionally included in life insurance policies.
Assigned Readings:	Chapter 3 – Personal Life Insurance Products: I Chapter 4 – Personal Life Insurance Products: II Chapter 5 – Life Insurance Policy Provisions and Riders

Assignment Outline:

Chapter 3 – Personal Life Insurance Products: I

A. Introduction

B. Term Life Insurance

1. Nature of Term Life Insurance
2. Key Features of Term Life Insurance
    a. Renewability
    b. Convertibility
    c. Reentry
3. Types of Term Life Insurance
    a. Personal Term Life Policies
        i. Policies that Provide a Level Death Benefit
        ii. Policies that Provide a Non-Level Death Benefit

b. Group Term Life Policies

i. Individual Eligibility Requirements

ii. Duration of Coverage

iii. Approaches to Benefit Amounts

iv. Conversion Privilege

4. Uses and Considerations of Term Life Insurance

C. Universal Life Insurance

1. Origins and Growth

2. Nature of Universal Life Insurance

3. Operational Details of Universal Life Insurance

4. Key Features of Universal Life Insurance

a. Death Benefit Pattern and Changes

b. Guaranteed and Nonguaranteed Policy Elements

5. Uses and Considerations of Universal Life Insurance

D. Variations of Universal Life Insurance

1. Variable Universal Life Insurance

a. Nature of Universal Life Insurance

b. Operational Details of Variable Universal Life Insurance

c. Uses and Considerations of Variable Universal Life Insurance

2. No-Lapse Guarantee Universal Life Insurance

a. Operational Details of No-Lapse Guarantee Universal Life Insurance

b. Uses and Considerations of No-Lapse Guarantee Universal Life Insurance

3. Equity-Indexed Universal Life Insurance

a. Operational Details of Equity-Indexed Universal Life Insurance

b. Uses and Considerations of Equity-Indexed Universal Life Insurance

E. Conclusions

Chapter 4 – Personal Life Insurance Products: II

A. Introduction

B. Whole Life Insurance

1. Nature of Whole Life Insurance

2. Key Features
    a. Importance of Cash Values
    b. Participating and Nonparticipating Whole Life Insurance
        i. Nature of Dividends
        ii. Dividend Options
3. Types of Whole Life Insurance
    a. Ordinary Life Policies
    b. Limited Payment Whole Life Policies
    c. Current Assumption Whole Life Policies
    d. Variable Life Policies
        i. Nature
        ii. Policy Provisions Unique to Variable Life
        iii. The appropriateness of Variable Life
    e. Other Whole Life Policies
        i. Modified Life Insurance
        ii. Enhanced Ordinary Life Insurance
        iii. Graded Premium Whole Life Insurance
        iv. Indexed Whole Life Insurance
        v. Special Purpose Whole Life Insurance
4. Uses and Considerations of Whole Life Insurance

C. Life Insurance on Multiple Lives
    1. Second-to-Die Life Insurance
    2. First-to-Die Life Insurance

D. Specialized Life Insurance for Insureds with High Net Worth
    1. Proprietary Life Insurance
        a. Private Placement Life Insurance

E. Endowment Life Insurance
    1. Nature of Endowment Insurance
        a. Mathematical Concept
        b. Economic Concept
    2. Types of Endowment Policies
    3. Uses and Considerations of Endowment Insurance

F. Summary of Attributes of Common Personal Life Insurance Policies

G. Conclusions

H. Appendix A4-1: Attributes of Term and Cash Value Life Insurance Policies

Chapter 5 – Life Insurance Policy Provisions and Riders

A. Introduction

B. Overview: Policy Content and Format

C. Life Insurance Policy Provisions

1. Provisions that Make Payment More Secure
    a. Entire Contract Clause
    b. Incontestable Clause
    c. Premium Provision
    d. Grace Period Provision
    e. Reinstatement Clause
    f. Nonforfeiture Provision
    g. Participation/Policy Value Provision
    h. Misstatement of Age or Sex Provision
2. Provisions that Make Payment Less Secure
    a. Suicide Clause
    b. Delay Clause
    c. Exclusion Clauses
        i. Aviation Exclusion
        ii. War Exclusion
3. Provisions that Provide Flexibility
    a. Right to Return Policy
    b. Death Benefit Provision
    c. The Beneficiary Clause
        i. Nature of Designations
        ii. Changing the Beneficiary
        iii. Simultaneous Death of Insured and Beneficiary

d. Settlement Options
    i. Cash
    ii Interest Option
    iii. Fixed Period Option
    iv. Fixed Amount Option
    v. Single Life Income Option
    vi. Joint and Survivorship Life Income Option
    vii. Other Settlement Arrangements
e. Nonforfeiture Options
f. Policy Loan Provision
    i. Policy Loan Interest Rate
    ii. Automatic Premium Loans
g. Dividend Options
h. Assignment/Ownership Provision
    i. Absolute Assignments
    ii. Collateral Assignments

D. Common Life Insurance Policy Riders
1. Riders Providing Life Insurance Coverage
    a. Term Riders
    b. Family Riders
    c. Accidental Death Benefit Riders
    d. Guaranteed Insurability Option
2. Living Benefit Riders
    a. Terminal Illness Coverage
    b. Catastrophic Illness Coverage
    c. Long Term Care Riders/Combination Plans
3. Riders Protecting against Policy Lapse
    a. Waiver of Premium/Charges Riders
    b. Overloan Protection Riders
    c. No Lapse Guarantee Riders
4. Enhanced Cash Value Riders

E. Conclusions

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Life and Health Insurance Fundamentals

Unit:	3
Topic:	Retirement Annuity Products
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To introduce the concept of longevity risk and to provide an overview of the types of retirement annuity contracts sold by life insurance companies to address that risk.
Assigned Readings:	Chapter 6 – Retirement Products

Assignment Outline:

Chapter 6 – Retirement Products

A. Introduction
B. The Nature of the Retirement Risk
C. Nature of Annuities
    1. Purpose of Annuities
    2. Annuity Demand
D. The Structure of Fixed Annuities
    1. Purchase Basis
        a. General Account Fixed Annuity
        b. Equity-Indexed Annuities
        c. Inflation-Indexed Annuities
        d. Long Term Care Annuity Riders
        e. Market Value Adjusted Annuity
        f. Certificate of Annuity
    2. Liquidation Basis
        a. Number of Lives
        b. Refund Features

The Structure of Variable Annuities

1. Separate Account Performance
    a. Guaranteed Minimum Death Benefit
    b. Guaranteed Minimum Accumulation Benefit
2. Variable Income Benefits
3. Regulation and Suitability of Variable Annuities

E. Guaranteed Minimum Withdrawals
1. Guaranteed Lifetime Withdrawal Benefit
    a. Deferral Period
    b. Liquidation Period
2. Contingent Deferred Annuities
3. Importance and Suitability of Guarantees

F. Substandard Mortality Annuities
1. Structured Settlement Annuities
2. Substandard Annuities

G. Retirement Plans
1. Benefits and Requirements
2. Special Investment Arrangements

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Life and Health Insurance Fundamentals

Unit:	4
Topic:	Health Insurance Products
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To familiarize the examiner with the three categories of health insurance (medical expense insurance, disability income insurance, and long term care insurance); to provide an overview of the various health insurance policies offered by life insurance companies; and to develop an understanding of the policy provisions and benefits associated with those coverages.
Assigned Readings:	Chapter 7 – Health Insurance Products I: Medical Expense Insurance Chapter 8 – Health Insurance Products II: Disability Income and Long Term Care Insurance

Assignment Outline:

Chapter 7 – Health Insurance Products I: Medical Expense Insurance

A. Introduction
B. The Economics of Health Care
    1. Cost/Benefit Measurement Problems
    2. Information Problems
        a. Buyer Ignorance
        b. Adverse Selection
        c. Moral Hazard
    3. Market Power
        a. Barriers to Entry
        b. Economies of Scale
C. The Health Care Environment
    1. U.S. Medical Care Cost Trends
    2. Employer Responses to Rising Costs

D. Health Insurance Providers

E. Basic Medical Expense Benefits

F. Comprehensive Medical Insurance Coverage

1. Deductibles and Coinsurance
2. Maximum Benefits, Coordination of Benefits, and Subrogation

G. Individual Medical Insurance

1. Need for Individual Medical Expense Insurance
2. Special Individual Insurance Coverages
    a. Hospital Confinement Indemnity Policies
    b. Specified Disease Policies
    c. Medicare Supplement Policies
3. The Health Insurance Contract
4. The Individual Health Insurance Market

H. Group Medical Insurance Coverage

1. Distinguishing Characteristics
    a. Group Underwriting
    b. Group Policy
    c. Lower Cost
    d. Flexibility
    e. Experience Rating
2. Advantages and Limitations of Group Mechanism
3. Eligible Groups
4. Alternatives to Fully Insured Group Benefit Plan Funding
    a. Self-Funded Plans
        i. Administrative Services
        ii. Stop Loss Reinsurance
    b. Minimum Premium Plans
5. Managed Care

I. Medicare

J. The *Patient Protection and Affordable Care Act*

1. Basic Mechanics of Health Care under the *Affordable Care Act*
2. Impact on Private Health Insurance
3. Responsibilities of the NAIC under Health Care Reform

K. Other Federal Laws Affecting Group Insurance

L. Conclusion

Chapter 8-Health Insurance Products II: Disability Income and Long Term Care Insurance

A. Introduction

B. Disability Income Insurance

1. Overview of Disability Income Policies
2. Important Definitions
    a. Injury and Sickness
    b. Preexisting Condition
    c. Disability
3. Basic Components of the Benefit Provision
    a. The Elimination Period
    b. The Benefit Period
    c. The Benefit Amount
4. Basic Benefit Arrangements
5. Supplemental Benefits
    a. Residual Disability Benefit
    b. Partial Disability Benefit
    c. Social Insurance Supplement
    d. Return of Premium Rider
    e. Inflation Protection Benefits
    f. Provisions for Increased Future Benefit Amounts
6. Extra-Contractual Settlement Offers
7. Governmental Sources of Disability Income Coverage
    a. Social Security
    b. Workers' Compensation
    c. State Temporary Disability Plans

C. Long Term Care Insurance

1. Sources of Long Term Care Coverage
2. Long Term Care Insurance Policies
    a. Defining Long Term Care

b. Coverage

i. Nursing Home Care

ii. Community Care

c. Benefits

d. Premiums

e. Other Contract Provisions

3. State Involvement in Long Term Care Insurance

4. The Limited Demand for Long Term Care Insurance

D. Conclusions

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Life and Health Insurance Fundamentals

Unit:	5
Topic:	Life Insurance Company Operation
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To make the examiner aware of the different types of life insurance providers; to provide an overview of life insurance company management and department functions; and to identify the types of risks faced by life insurance companies.
Assigned Readings:	Chapter 9 – Life Insurer Management

Assignment Outline:

Chapter 9 – Life Insurer Management

A. Introduction
B. Life Insurance Providers
    1. Commercial Life Insurance Companies
    2. Life Insurers in Conglomerates
    3. Other Life Insurance Providers
C. Corporate Management
    1. The Board of Directors (Trustees)
    2. Levels of Authority and Organizational Structure
    3. Agency and Corporate Governance
D. A Functional Overview of Life Insurer Management
    1. The Production Process
    2. Departmental Staff Functions
    3. Legal and Ethical Responsibilities
E. Financial and Actuarial Intermediation
    1. Life Insurers as Both Actuarial and Financial Intermediaries
    2. Redefining Risk for Financial Intermediaries

F. A Short History of the Life Insurance Industry and Risk

G. Life Insurer Assets and Liabilities

1. Assets
2. Liabilities
3. Constructing Liability-Appropriate Investment Portfolios

H. How Life Insurers Make Money

I. Life Insurer Enterprise Risk Management

1. An Enterprise Risk Management Framework for Insurers
2. Risks Faced by Life Insurers
3. Special Risks in Financial Intermediation
    a. Leverage Risk
    b. Asset – Liability Risk
        i. Liquidity Risk
        ii. Liquidity Risk and Policyowner Behavior
        iii. Reinvestment Risk and Policyowner Behavior

J. Conclusions

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Life and Health Insurance Fundamentals

Unit:	6
Topic:	Marketing
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of the life insurance company marketing function; to identify the various types of product distribution channels utilized; and to acquaint the examiner with typical marketing compensation arrangements used by life insurance companies.
Assigned Readings:	Chapter 10 – Life Insurance Marketing

Assignment Outline:

Chapter 10 – Life Insurance Marketing

A. Introduction
B. The Marketing Program
    1. Market Segmentation
    2. The Competition
C. Life Insurance Product Development
    1. Product Design
        a. The Environment
        b. Screening
    2. Product Implementation
    3. Product Life Cycles
D. Distribution Channels
    1. Affiliated Distribution Channels
        a. Career Agencies
        b. Multiple-Line Exclusive Agents
        c. Home Service

    d. Salaried
  2. Independent Distribution Channels
    a. Brokerage
    b. Personal-Producing General Agents
    c. Independent Property/Casualty Agents
    d. Independent Marketing Organizations
  3. Financial Institution Intermediaries
    a. Deposit Taking Institutions
    b. Investment Banks
    c. Other Financial Institutions
  4. Direct Response Channels
    a. Media Channels
    b. Associations and Commercial Firms
  5. Trends in Distribution
E. Compensation in Marketing
  1. Management Compensation
  2. Agent Compensation
    a. Compensation in Affiliated Distribution Channels
    b. Compensation in Independent Distribution Channels
F. Promotion
  1. Advertising and Publicity
  2. Sales Promotion
  3. Personal Sales
    a. Identification of Qualified Clients
    b. Identification of Client Needs
    c. Continuing Client Service
G. The International Dimensions of Distribution
  1. Life Insurance Distribution Worldwide
    a. The Americas
    b. Europe
    c. Asia – Pacific Region
  2. The Role of Multinational Insurers
  3. International Participation of United States Life Insurers

H. The Future of Life Insurance Marketing

1. The Production Challenge
2. Possible Compensation Alternatives
3. Mandatory Compensation Reform Movement in International Markets
4. The Life Insurance Market of the Future
5. Life Insurer Products of the Future

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Life and Health Insurance Fundamentals

Unit:	7
Topic:	Underwriting
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of the life insurance company underwriting function; to identify the factors affecting insurability; to develop an understanding of underwriting principles and practices; and to make the examiner aware of how life insurance companies use reinsurance to help manage risk.
Assigned Readings:	Chapter 11 – Life Insurance Underwriting

Assignment Outline:

Chapter 11 – Life Insurance Underwriting

A. Introduction
B. The Need for Underwriting
    1. Risk Pooling and Fair Prices
        a. Group versus Individual Insurance
        b. Social versus Private Insurance
        c. Fair Prices and Subsidization
    2. The Importance of Information
        a. The Adverse Selection Problem
        b. The Role of Competition
C. Guiding Principles in Underwriting
    1. Equity among Insureds
    2. Recognition of Underlying Loss Assumptions
    3. Social Acceptability

D. Factors Affecting Insurability
    1. Rating Factors
        a. Age
        b. Sex
        c. Tobacco Usage
    2. Selection and Classification Factors
        a. Health Characteristics
            i. Physical Condition
            ii. Mental Condition
            iii. Health History
            iv. Family History
        b. Lifestyle Characteristics
            i. Alcohol and Drugs
            ii. Occupation
            iii. Hazardous Sports and Avocations
            iv. Aviation and Driving
            v. Military Service
            vi. Residence
        c. Financial Characteristics
            i. Determining Motivation
            ii. Determining Maximum Insurable Value
            iii. Minimizing Adverse Selection and Moral Hazard
E. Sources of Information Concerning Life and Health Insurance Risks
    1. The Application
    2. Physical Examination
    3. Laboratory Testing
    4. The Agent
    5. Attending Physician Statements
    6. Inspection Companies
    7. Industry-Sponsored Data Bases
F. Methods of Risk Classification
    1. The Judgment Method
    2. The Numerical Rating System

G. Classifying Substandard Risks
    1. Incidence of Extra Mortality
    2. Methods of Rating
        a. Multiple Table Extra
        b. Flat Extra Premium
        c. Other Methods
H. Special Underwriting Practices
    1. Nonmedical Insurance
    2. Instant-Issue Underwriting
    3. Reinstatements and Policy Changes
I. Reinsurance
    1. Managing Risk
        a. Benefits of Reinsurance beyond Pure Risk Transfer
        b. Establishing the Retention
        c. Agreements
    2. Types of Reinsurance
        a. Proportional Reinsurance
        b. Non-proportional Reinsurance
J. Conclusion

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Life and Health Insurance Fundamentals

Unit:	8
Topic:	Life Insurance Company Regulation and Taxation
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of the federal and state regulation of life insurance companies and to familiarize the examiner with federal and state taxation of life insurance companies.
Assigned Readings:	Chapter 12 – The Regulation and Taxation of Life Insurance Companies

Assignment Outline:

Chapter 12 – The Regulation and Taxation of Life Insurance Companies

A. Introduction
B. Overview of Regulation
    1. The Purpose of Government Intervention into Markets
    2. Theories of Regulation
    3. Overview of Insurance Regulation in Selected Markets
        a. Regulation in Canada
        b. Regulation in the European Union
        c. Regulation in Japan
C. U.S. Federal Regulation of Life Insurers
    1. Importance of the *McCarran – Ferguson Act*
    2. The *Financial Services Modernization Act*
    3. The *Dodd – Frank Wall Street Reform and Consumer Protection Act*
    4. Other Areas of Federal Insurance Regulation
        a. Selling Securities
        b. Buying Securities
        c. Issuing Securities

    d. Lending
    e. Taxation
    f. International Trade

D. U.S. State Regulation of Life Insurers
  1. Roles of the Three Branches of State Governments
  2. Role of the *National Association of Insurance Commissioners*
    a. Structure and Operation
    b. The State Accreditation Program
    c. Regulatory Modernization
  3. Areas of State Regulation
    a. Organization and Licensing of Insurers
      i. Licensing Requirements
    b. Demutualization
    c. Solvency Surveillance
    d. Unauthorized Insurance
    e. Insurance Policy Regulation
    f. Marketing Practices
      i. Licensing of Agents and Brokers
      ii. Unfair Trade Practices

E. Issues in Group Supervision

F. Taxation of U.S. Life and Health Insurers
  1. State Government Taxation
    a. Premium Taxation
    b. Retaliatory Taxation
    c. Income Taxation
  2. Federal Government Taxation
    a. Income Taxation
      i. Permitted Reserves
      ii. Dividends
      iii. The Small Life Insurance Company Deduction
    b. The 1990 Deferred Acquisition Cost (DAC) Tax
    c. Federal Excise Tax

G. Conclusions

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Life and Health Insurance Fundamentals

Unit:	9
Topic:	Financial Reporting, Supervision, and Financial Management
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of the financial reports prepared by life insurance companies based on a variety of accounting methods to meet the varied needs of regulators, investors, and others; to acquaint the examiner with managerial accounting tools used by life insurance company management for various planning and control activities; to identify methods of financial supervision and oversight of life insurance companies by regulators; and to introduce elements of financial risk management and economic capital calculation and monitoring.
Assigned Readings:	Chapter 13 – Life Insurer Financial Reporting and Supervision Chapter 14 – Life Insurer Financial Management

Assignment Outline:

Chapter 13 – Life Insurer Financial Reporting and Supervision

A. Introduction
B. Financial Condition, Supervision, and Reporting
C. Life Insurer Accounting Conventions
    1. An Analysis of Statutory Accounting Principles
    2. An Analysis of Generally Accepted Accounting Principles
    3. Managerial Accounting
D. Financial Reporting
    1. Reports to State Insurance Regulators
        a. Assets

b. Liabilities
    i. Policy Reserves
    ii. The Asset Valuation Reserve and Interest Maintenance Reserve
    iii. Debt Financing
    iv. Reinsurance
c. Capital Stock and Surplus
d. Supplementary Schedules and Exhibits

2. Reports to Shareholders and Policyholders

E. SAP versus GAAP Treatment of Accounting Items
1. Valuation of Assets
2. Valuation of Liabilities
3. Recognition of Income and Expense

F. Financial Supervision
1. Pricing Sufficiency and Cash Flow Testing
2. Capital Requirements
3. Investment Quality
4. Solvency Surveillance
5. Consent to Mergers and Acquisitions
6. Dividend Restrictions
7. Rehabilitation and Liquidation

G. The Future of Financial Supervision and Reporting
1. The Harmonization of International Supervision and Reporting Practices
2. The Principles – Based Approach to Accounting
3. Stochastic Models
    a. U.S. Reserves
    b. U.S. Risk-Based Capital
    c. Limitations of the Principles – Based Approach
4. Corporate Governance and Risk Management

H. Conclusions

Life Insurer Financial Management

A. Introduction

B. Capital and Risk Management
    1. The Economic Views of Capital
    2. The Importance of Capital and Capital Structure
    3. Risk Capital, Risk Management, and Hedging
    4. The Capital and Capital Cost Allocation Problem
C. Economic Capital
    1. Calculating Economic Capital for a Line of Business
    2. Calculating Economic Capital for the Firm
    3. Attributing Firm Level Economic Capital at the Line of Business Level
D. Financial Risk Management
    1. Interest Rate Risk and the Short Straddle Position
    2. Asset – Liability Matching
        a. Controlling Liability Cash Flows: Product Design
        b. Controlling Asset Cash Flows: A Duration Matched Asset Portfolio
        c. Matching and Immunizing a Portfolio: One Product
        d. Matching and Immunizing a Portfolio: Two or More Products
    3. Hedging: Reducing Asset – Liability Mismatch
        a. Hedging Interest Rate Risk with Derivatives: Interest Rate Options
        b. Hedging Equity Market Risk for an Equity – Indexed Annuity
E. Capital Allocation
    1. Equity, Debt, Reserve, and Hedge Financing
    2. The Cost of Capital
    3. Capital Allocation
    4. Securitization in Capital Management
F. Risk – Adjusted Measurement of Firm – Level Financial Performance
G. Conclusions
H. Appendix
    1. Fundamental Assumptions of Finance
    2. Cash Flows with Options
    3. Modern Portfolio Theory
        a. The Risk – Return Trade – Off
        b. Expected Return Defined and Measured
        c. Risk Defined and Measured

    d. Risk and Diversification
        i. How Diversification Reduces Risk
        ii. Measuring Market Risk
        iii. Constructing Efficient Portfolios
4. The Price of Equity Capital
    a. The Capital Asset Pricing Model
        i. Determining the Market Rate of Return
        ii. Measuring a Portfolio Beta
    b. Arbitrage Pricing Theory
5. The Price of Stocks
6. The Price of Bonds
    a. Duration
        i. The Duration Formula
        ii. The Economic Meaning of Duration
    b. Convexity
        i. Negative Convexity
        ii. Optionality and the Dependence of Asset and Liability Cash Flows
7. The Modigliana – Miller Theorem

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Life and Health Insurance Fundamentals

Unit:	10
Topic:	Actuarial Fundamentals and Applications
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide an overview of life insurance actuarial fundamentals; to identify probability, mortality, and interest concepts used by actuaries; and to familiarize the examiner with how those concepts are used in the determination of net premiums and reserves.
Assigned Readings:	Chapter 15 – Life Insurance Actuarial Fundamentals Chapter 16 – Life Insurance Actuarial Applications

Assignment Outline:

Chapter 15 – Life Insurance Actuarial Fundamentals

A. Introduction

B. Measurement of Risk in Life Insurance

1. Probability Concepts
2. Mortality Concepts
    a. Estimating Future Event and the Law of Mortality
    b. Application of the Law of Large Numbers to Mortality
    c. Mortality Statistics
    d. Mortality Table Construction
        i. Derivation of Death Rates
        ii. Adjustments of Mortality Data

e. Types of Mortality Tables
    i. Valuation versus Basic Tables
    ii. Select, Ultimate, and Aggregate Tables
    iii. Tables for Annuities
    iv. Static Tables versus Tables with Projection
    v. Smoker versus Nonsmoker Tables
    vi. Specific Tables in Use Today
f. Application of Probability to Mortality

3. Interest Concepts
    a. Accumulated Value of 1
    b. Present Value of 1
    c. Accumulated Value of 1 per Year
    d. Present Value of 1 per Year
    e. Annuities

C. Overview of Insurance Pricing

D. Net Premiums
1. Net Single Premiums
    a. Term Life Insurance
    b. Whole Life Insurance
    c. Endowments
    d. Life Annuities
        i. Immediate Life Annuities
        ii. Deferred Life Annuities
2. Net Level Premiums
    a. Term Life Insurance
    b. Whole Life Insurance
    c. Endowments
    d. Deferred Annuities

Chapter 16 – Life Insurance Actuarial Applications

A. Introduction

B. Reserve Derivation
1. Definition of Policy Reserve

2. Methods of Calculation
    a. Retrospective Method
    b. Prospective Reserve
3. Types of Policy Reserves
    a. Terminal, Initial, and Mean Reserves
    b. Modified Reserves
        i. Full Preliminary Term Method
        ii. Commissioners' Reserve Valuation Method
    c. Premium Deficiency Reserves
    d. GAAP versus Statutory Reserves
4. Significance of Actuarial Assumptions
5. Regulation of Policy Reserves
    a. Requirements
    b. Principles – Based Reserve Requirements

C. Cash Value Derivation
1. Concepts of Equity
2. Regulation of Cash Values
    a. Requirements
    b. Evolution of More Flexible Nonforfeiture Standards

D. Derivation of Gross Premium Rate Structures
1. Elements of Gross Premium Rate Structures
    a. Mortality
    b. Investment Returns
    c. Policy Loads
    d. Persistency
2. Calculation of Gross Premium Rate Structures
3. Testing the Gross Premium Rate Structure
    a. Sources of Profit
    b. Measures of Profit
    c. Testing Procedures
        i. The Asset Share Model
        ii. Accumulated Book Profits Model

E. Surplus and Its Distribution
1. Divisible Surplus

2. Frequency of Distribution
3. The Contribution Principle

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Life and Health Insurance Fundamentals

Unit:	11
Topic:	Life Insurance Due Care
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To address the broad area of life insurance due care; to identify ways to evaluate life insurance advisors and the financial strength of life insurance companies; to provide an overview of contract and agency law and how they are applied to life insurance policies and the purchase decision; and to familiarize the examiner with the use of policy illustrations to evaluate life insurance policies.
Assigned Readings:	Chapter 17 – Life Insurance Advisor and Company Evaluation Chapter 18 – Life Insurance Policy Evaluation I: Legal Aspects Chapter 19 – Life Insurance Policy Evaluation II: Performance Comparisons

Assignment Outline:

Chapter 17 – Life Insurance Advisor and Company Evaluation

A. Introduction
B. The Life Insurance Purchase Decision
C. Evaluating Life Insurance Advisors
    1. Life Insurance Advisors
        a. Insurance Agents
        b. Personal Financial Planners
        c. Financial Institution Employees
        d. Attorneys and Accountants

2. Evaluating Life Insurance Agents
    a. Tenants of Professionalism
        i. Fairness
        ii. Competence
        iii. Integrity
        iv. Diligence
    b. Sources of Information about Agents

D. Evaluating Life Insurance Companies' Financial Strength
1. Why Assessing Life Insurer Financial Strength is Important
    a. The Special Nature of Life Insurance
    b. Life Insurers in Financial Difficulty: Lessons from the Past
2. Insurer Management of Financial Strength
    a. Incentives to have Strong Financials
    b. Incentives to Avoid Holding Excess Capital
3. Assessing Insurer Financial Strength
    a. Capital and Surplus Adequacy
    b. Leverage
    c. Quality and Diversification of Assets
    d. Liquidity
    e. Operational Performance
4. The Role of Rating Agencies
    a. The Importance of Rating Agencies
    b. Four Major Rating Agencies
    c. The Nature of Rating Agency Reports
        i. Rating Agency Reports
        ii. Rating Categories
    d. Using Rating Agency Reports and Ratings
5. Other Sources of Information about Insurers
    a. The NAIC and State Insurance Departments
        i. Financial Statement Information
        ii. Complaint Data
        iii. Risk – Based Capital Ratios
    b. Securities and Exchange Commission
    c. Insurance Companies, Agents, and Publications

E. Implications to Policyholders of Insurer Financial Difficulty
    1. With No Regulatory Intervention
    2. With Regulatory Intervention
F. Conclusions

Chapter 18 – Life Insurance Policy Evaluation I: Legal Aspects

A. Life Insurance and the Law of Contracts
    1. Economics and the Law
    2. Regulatory Control over Policy Provisions
B. The Insurance Policy as a Contract
    1. Distinguishing Characteristics of Insurance Contracts
    2. Formation of Insurance Contracts
        a. Capacity of the Parties
        b. Mutual Assent and the Inception of Insurance
        c. Consideration
        d. Legal Purpose and Insurable Interest
            i. Background and Rationales for Insurable Interest
            ii. Public Policy Rationales
            iii. Economic Rationales
            iv. Consequences of not Having an Insurable Interest
            v. Insurable Interest in One's Own Life
            vi. Insurable Interest in Another Person's Life
            vii. The Time and Continuity of Insurable Interest
    3. Governing Law
    4. The Application and Its Interpretation
        a. Misrepresentations
        b. Concealment
        c. Warranties
        d. Rules of Contract Construction
    5. Presumption of Death and Disappearance
    6. Effect of Failure to Read Application and Policy
    7. Insurer's Liability for Delay, Improper Rejection, or Failure to Act

C. Life Insurance and the Law of Agency
    1. Overview
    2. Authority and Powers of the Agent
    3. Notice of Limitations in Applications and Policies
    4. Agent's Liability to Principal for Misconduct
D. Market Conduct, Product Suitability, and Consumer Litigation
    1. An Overview of Consumer Litigation
    2. Industry and Regulatory Responses
E. Creditor Rights in Life Insurance
    1. Rights of the Policyowner's Creditors
        a. The Federal Bankruptcy Law
        b. State Exemption Statutes
    2. Rights of the Beneficiary's Creditors
    3. Unprotected Policies
    4. The Spendthrift Clause
F. Conclusions

Chapter 19 – Life Insurance Policy Evaluation II: Performance Comparisons

A. Introduction
B. Life Insurance Policy Illustrations
    1. Non – Variable Life Insurance Illustrations
        a. Requirements
        b. Prohibitions
        c. The Illustration Actuary
    2. Variable Life Insurance Illustrations
C. Assessing the Sustainability of Illustrated Policy Values
    1. Factors Affecting Sustainability
        a. Mortality Experience
        b. Investment Earnings
        c. Expenses and Taxes
        d. Lapse Experience

2. An Illustrative Assessment Process
    a. Review Interest Crediting Rate
        i. Crediting Rate Comparison
        ii. Crediting Rate Change Indication
    b. Review Illustrated Performance
    c. Other Illustration Assessment Considerations

D. Using Illustrated Policy Values for Policy Performance Comparisons
1. The Need for Comparisons
2. Factors to Consider in Performance Comparisons
3. Measures of Illustrated Policy Performance
    a. Value Solve Measures
        i. Premium Solve
        ii. Death Benefit Solve
        iii. Surrender Value Solve
    b. Internal Rate of Return Measures
        i. Death Benefit Internal Rate of Return
        ii. Surrender Value Internal Rate of Return
    c. Interest Adjusted Net Cost Measures
    d. Other Measures
        i. Equal Outlay Method
        ii. Cash Accumulation Method
        iii. Comparative Interest Rate Method
        iv. Yearly Prices of Protection and Rates of Return
4. Evaluating Premium Payment Modes

E. Policy Reviews
1. Nature of Policy Reviews
    a. Annual Reviews
    b. Detailed Reviews
2. Options to Achieve Insurance Goals
    a. When Policy Values are Insufficient
    b. When Policy Values are Greater than Necessary

F. Cost and Benefit Disclosure
    1. Background
    2. NAIC Non – Variable Life Insurance Disclosure Requirements
        a. The Buyer's Guide
        b. The Policy Summary
    3. Variable Life Disclosure Requirements
        a. State – Mandated Disclosure
        b. Federally Mandated Disclosure
G. Life Insurance Replacement and Its Regulation
    1. Replacement Procedures
    2. Replacement Analysis
H. Conclusions

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Life and Health Insurance Fundamentals

Unit:	12
Topic:	Life Insurance in Personal and Business Planning
Text Required:	Life Insurance Kenneth Black, Jr., Harold D. Skipper, and Kenneth Black, III 15th Edition (Lucretian, LLC, 2015)
Objectives:	To provide a general overview of how life insurance products can be used in personal and business financial planning, retirement planning, and estate planning and to develop an understanding of life insurance product taxation.
Assigned Readings:	Chapter 20 – Personal Financial Planning Chapter 21 – Life and Health Insurance Product Taxation Chapter 22 – Life Insurance in Estate Tax Planning Chapter 23 – Retirement Planning Chapter 24 – Life Insurance in Business Planning

Assignment Outline:

Chapter 20 – Personal Financial Planning

A. Introduction
B. Wealth and the Life Cycle
    1. The Financial Life Cycle
    2. Life Cycle Risks and Management Tools
C. Personal Financial Planning in a Risk Management Context
    1. Human Capital Risk Management
    2. Investment Capital Risk Management
        a. Taxes and the Individual Investment Portfolio
            i. Importance of Considering Taxes
            ii. The Efficient Portfolios

b. Protecting Investment Capital

i. Use of Investment Guarantees

ii. Use of Long Term Care Insurance

iii. Use of Life Annuities

c. Investment Capital Risk and Life Insurance

3. Correlation Between Human Capital and Investment Capital

D. Personal Financial Planning Advice

E. The Personal Financial Planning Process

1. Gather Information

2. Establish Objectives

3. Model Potential Financial Outcomes

a. The Complexity of Financial Modeling

b. Testing Scenarios with the Financial Model

4. Develop and Implement Plan

5. Monitor and Revise Plan

F. Determining the Total Personal Insurance Need

1. Human Capital Requirements at Death

a. Human Capital Exposure and Coverage

b. Calculating the Human Capital Need

2. Cash Requirements at Death

3. Consideration of Bequests at Death

G. Conclusions

Chapter 21 – Life and Health Insurance Product Taxation

A. Introduction

B. Background

C. Life and Health Insurance Product Taxation Fundamentals

D. Federal Income Tax Law Affecting Policy Design and Operation

1. Code Section 7702 – Definition of Life Insurance

a. Background

b. The Definitional Tests

i. The Cash Value Accumulation Test

ii. The Guideline Premium and Cash Value Corridor Tests

c. Consequences of Failing to Meet the Definitional Tests

    d. The Cash Value Accumulation and Guideline Premium Tests in Operation
  2. Code Section 7702A – Definition of Modified Endowment Contracts

E. Life Insurance Policyowner Taxation
  1. Premiums
  2. Death Benefits
    a. Transfer for Value Rule
    b. Employer Owned Life Insurance
    c. Taxation of Death Benefits for Other Reasons
    d. Settlement Options
  3. Dividends
  4. Cash Values
    a. Interest on Cash Values
    b. Cash Surrender Payments
    c. Policy Loans
    d. Policy Exchanges
  5. Policy Sales
  6. Matured Endowments
  7. Accelerated Death Benefits
  8. Special Variable Product Tax Issues

F. Annuity Policyowner Taxation
  1. During the Accumulation Period
  2. During the Liquidation Period
  3. Death of the Annuitant
  4. Special Annuity Tax Issues
    a. Contingent Deferred Annuities
    b. Longevity Annuities
  5. Unearned Income Medicare Contributions Tax and Annuities

G. Health Insurance Policyowner Taxation
  1. Medical Expense Insurance
  2. Disability Income Insurance
  3. Long Term Care Insurance
    a. Code Section 7702B – Definition of Long Term Care Insurance
    b. Premiums and Benefits
    c. Qualified Long Term Care Insurance Riders

H. Conclusions

Chapter 22 – Life Insurance in Estate Planning

A. Introduction

B. The Estate Planning Process

C. United State Federal Transfer Tax Laws Affecting Estate Planning

1. Estate Taxation

a. The Gross Estate

i. Property Owned by the Decedent

ii. Certain Gifts

iii. Annuities

iv. Joint Interest Property

v. Power of Appointment

vi. Life Insurance

vii. Miscellaneous

b. The Taxable Estate

i. Expenses, Debts, and Claims

ii. Unreimbursed Losses

iii. Charitable and Related Transfers

iv. Family Owned Business Interests

v. Transfers to Surviving Spouse

c. Tentative Tax Base

d. Tentative and Final Federal Estate Tax

e. An Estate Tax Illustration

2. Gift Taxation

a. Gift Tax Exclusion

b. Gifts of Life Insurance and Annuity Contracts

c. Gifts of Premiums

d. Gifts of Insurance Proceeds

3. Generation – Skipping Transfer Taxation

D. How Property Passes at Death

1. Wills

2. Advance Directives

3. Gifts

4. Joint Ownership of Property
5. Trusts
    a. Marital Deduction and Credit Shelter Trusts
    b. Trusts for Minor Children
    c. Crummey Trusts
    d. Irrevocable Life Insurance Trusts
    e. Charitable Remainder Trusts
    f. Intentionally Defective Irrevocable Trusts

E. Life Insurance Analysis for Estate Planning
1. Identify Objectives
2. Gather Information
3. Analyze Information
4. Develop and Implement the Plan: Matching Policies to Goals
    a. Nature of Insurance Need Influencing Selection of Policies
    b. Policy Options for Families Composed of Husband and Wife
    c. Policy Options with Other Family and Household Arrangements
    d. Policy Options for Other Estate Planning Goals

F. Life Insurance and the Generation – Skipping Transfer Tax

G. Conclusion

Chapter 23 – Retirement Planning

A. Introduction

B. The Uncertain Environment for Retirement Planning
1. Demographic and Economic Dimensions of Retirement Planning

C. Psychological Dimensions of Retirement Planning
1. Perceptions
2. Behavioral Economics

D. The Retirement Planning Process

E. Retirement Planning Risk Management
1. Personal Savings for Retirement
    a. Savings Through Qualified Plans
        i. Qualified Employer – Sponsored Plans
        ii. Tax – Advantaged Plans for Individuals

b. Savings Through Nonqualified Approaches

i. Nonqualified Non – Insurance Savings Vehicles

ii. Nonqualified Insurance Products: An Overview

2. Retirement Age

3. Standard of Living in Retirement

a. Pension Maximization Strategy

b. Delaying Social Security Retirement Benefits

F. Personal Savings Through Nonqualified Annuities: An Extended Analysis

1. Possible Advantages of Annuities

a. Tax Deferral

b. Longevity Protection

c. Inflation Protection

d. Investment Guarantee

2. Possible Disadvantages of Annuities

G. Personal Savings Through Life Insurance: An Extended Analysis

1. Policy Withdrawals, Partial Surrenders, and Loans

2. Annuitization

3. Sale of a Policy in the Secondary Life Insurance Market

H. Conclusions

I. Appendix: An Overview of Important Employer – Provided Retirement Plan Features

Chapter 24 – Life Insurance in Business Planning

A. Introduction

B. Forms of Business Organizations

1. Sole Proprietorships

2. Partnerships

3. Corporations

a. Problems Associated with the Death of a Majority Shareholder

b. Problems Associated with the Death of a Minority and 50/50 Shareholder

4. Limited Liability Companies

C. Tax Considerations in Business Applications of Life Insurance

D. Business Applications of Life Insurance

1. Key Person Indemnification

a. Identify Objectives

b. Gather and Analyze Information

c. Develop and Implement Plan

2. Business Continuation Arrangements

a. Sole Proprietorships

b. Partnerships

i. Types of Business Continuation Arrangements

ii. Use of Life Insurance

iii. Use of Disability Income Insurance

iv. Taxation of Life and Disability Insurance in Partnership Buy/Sell Agreements

c. Corporation

i. Use of Life Insurance

ii. Factors Influencing Type of Agreement

iii. Taxation of Life Insurance in Corporate Business Continuation Agreements

3. Nonqualified Executive Benefit Plans

a. Executive Bonus Plans

b. Split Dollar Life Insurance

i. Choice of Split Dollar Plans

ii. Tax Consequences of Split Dollar Plans

iii. Split Dollar Plan Variations

c. Nonqualified Retirement Plans

i. Nonqualified Deferred Compensation Plans

ii. Supplemental Executive Retirement Plans

iii. Funding Nonqualified Retirement Plans

iv. Tax Treatment of Nonqualified Retirement Plans

v. Example

4. Group Term Carve Outs

E. Conclusions