Errata

Note that all of the July 31, 2018 errata below has been fixed in the final version of Part II that was posted on July 31, 2018. You only need to review the July 31, 2018 errata if you already printed Part II and do not wish to reprint. Also note that the page numbers references in the July 31, 2018 errata are based on the Outline Only version of Part II.

Please check the errata once every week or so. Given this is the first sitting for the study guide, we expect errata to be found.

July 31, 2018

Feldblum (Loss Reserve Discounting)

- On page 484, the second bullet from the top is partially incorrect. It should NOT say "Due to the unwinding of the interest rate, the discounted reserve change from $12,100 to $13,310." Since the payment is made in 2016, it should say "Paid losses plus the change in discounted reserves equals $13,310 + ($0 - $12,100) = $1,210 (i.e. underwriting loss of $1,210)

Feldblum (Surplus)

- On page 303, in the Scenario 1 Example, it should say "…and this capital is invested in 10% **annual** coupon taxable bonds," not semi-annual coupon taxable bonds.

CAS Financial Reporting Ch. 9 (Surplus & Capital)

- On page 312, the change in gross paid-in and contributed surplus is double counted. It should only appear in the "Additional Capital Contributions." The current year surplus should say $57,598,000.

CAS Financial Reporting Ch. 14 (Schedule F)

- The formula for the provision for reinsurance for certified reinsurers is slightly off. Instead of using total recoverables in the formula (i.e. letter A), we should be using total **net** recoverables (we call this letter J), where net means total recoverables less reinsurance

payable on ceded balances payables and reinsurance payable on other amounts due to reinsurers. Thus, replace all of the letter A's with letter J's. In addition, for the net unsecured recoverable (i.e. let G), we should be using total net recoverables in place of total recoverables. See the original practice problem for more insight on certified reinsurers.

CAS Financial Reporting Ch. 15 (Schedule P)

- On page 368, in the Discounting section, it should say "…these amounts will NOT reconcile to the amounts shown in Part 1 for companies that use **tabular** discounting." The article says non-tabular which is misleading. The subsequent sentence should say **tabular** as well.

CAS Financial Reporting Ch. 19 (RBC)

- On page 397, the R_3 is risk charge is cubed by mistake. It should be squared
- On page 422, in the third bullet under the example, the word "development" should not be there. We are using the loss ratio here, not the development factor
- On page 423, in the "Second" section, it should say **Net written premium** RBC after discount, not Loss and LAE RBC after discount

NAIC IRIS

- On page 431, it should state that IRIS Ratio **3** is 3, not IRIS Ratio 1.
- On page 432, it should state that IRIS Ratio **4** is 1, not IRIS Ratio 1.
- On page 445, it should state that IRIS Ratio 13 is 4 which is less than **25**, not less than 24.

September 8, 2018

Cook

- On page 204, the solution for high-risk insureds within ES #4 should state that the affordability problem could lead to more **uninsured** motorists on the road, not more insured motorists.

Webel 1 and 2

- On page 245, the federal sharing percentage for TRIP Reauthorization Act of 2015 is stated to have decreased from 85% to 80%. It should state that the decrease is a gradual decrease

from 85% to 80%, as the percentage decreases by 1% per year starting in 2016 until it reaches 80%.

COPFLR

- On page 960, the solution to MP #1 states that "The carried reserves on a gross basis are 800 millon…" when it should state "The carried reserves on a **net** basis are 800 million…"

September 23, 2018

CAS Financial Reporting Ch. 9 (Surplus & Capital)

- On page 373, the solution to part b. should say "Thus, the amount recorded is 800,000 (paid) + **200,000** (change in declared but unpaid) = **$1,000,000**."

CAS Financial Reporting Ch. 14 (Schedule F)

- On page 454, the calculations of the slow-paying ratios are using the wrong numbers in the denominator. For reinsurer 1, the slow-paying ratio is (12,500)/(**75,000** + 50,000) = **10%**. For reinsurer 2, the slow-paying ratio is (10,000)/(**30,000** + 2,000) = **31.25%**.

CAS Financial Reporting Ch. 22 (US GAAP)

- On page 706, there is a typo in the first bullet. It should say "The re-estimated net reserves…by subtracting the cumulative paid losses as of 12 months from the re-estimated **ultimate** losses as of 36 months".

CAS Financial Reporting Ch. 26 (Taxation)

- On page 798, the calculation of the RTI is missing the 1.05 from the taxable interest income on tax-exempt bonds. If we add this in, then the RTI, RIT, AMTI, and AMIT change to 207.825, 72.739, 335.006, and 67.001, respectively. The final income tax is the RIT, which is $72,739

September 30, 2018 (important errata highlighted in green below)

CAS Financial Reporting Ch. 8 (Statutory Balance Sheet)

- The solution for ES #9 is flipped (page 306). It should say "For NAIC rating = 1, preferred stock is recorded at either the original purchase price plus acquisitions costs (redeemable stock) OR fair value (perpetual stock). For NAIC rating = 5, preferred stock is recorded at the lower of book or fair value"

CAS Financial Reporting Ch. 19 (RBC)

- In MP #4, the reinsurance RBC shown in the problem on page 603 is just the half associated with the R_4 risk charge
- In the solution to part b. of MP #4, the first written premium growth rate should be **2000/1950 – 1 = 2.56%**. This results in an AGRF of 6.96% and an excessive premium growth charge of $162,864
- The calculation of the loss-sensitive discounts for both the R_4 and R_5 risk charges are incorrect. The discount should be based on the "Base Loss and LAE Reserve RBC" (for R_4) and the "Base Written Premium RBC" (for R_5). In the outline examples as well as MP #4 and MP #5, the loss-sensitive discounts were calculated based on the raw reserves and the raw written premium:
    - R_4 example (page 583): The loss-sensitive discount should be (0.30)(0.25 x **653,280**) + (0.15)(0 x **653,280**) = 48,996. Then, the loss and LAE RBC after discount is 653,280 – 48,996 = **$604,284**. Thus, the total loss and LAE RBC after discount is 1,500,000 + **604,284** = **2,104,284**. The total net loss and LAE RBC is 2,104,284(0.82) = **$1,725,513**
    - R_5 example (page 589): The loss-sensitive discount should be (0.30)(0.18 x 567,428) + (0.15)(0 x 567,428) = 30,641. Similar to the R_4 example, all subsequent numbers affected by this would change as well
    - MP #4 (page 604): In the solution to part a, the loss-sensitive discount should be (0.30)(0.05)(**91.2**) + (0.15)(0.02)(**91.2**) = **1.64** and the loss and LAE RBC after discount should be 91.2 – 1.64 = **89.56**. Thus, the total net loss and LAE RBC is (**89.56**+ 15.2 + 3.0)(0.885)(1,000) = **$95,368**. The solution to part c should be

95,368+ 162,864 + 0 + 20,000 = **$278,232**. (note that the 162,864 comes from the MP #4 errata up above)

- MP #5 (page 608): In the solution to part a, the loss-sensitive discount should be (0.30)(0.10)(**485**.5) + (0.15)(0)(**485.5**) = **14.57** and the net written premium RBC after discount should be 485.5 – **14.57** = **470.93**. Thus, the total net written premium RBC is (**470.93** + 121.2 + 130.0)(0.813)(1,000) = **$587,092**. The solution to part c should be **587,092** + 58,433 + 0 = **$645,525**.

October 9, 2018

CAS Financial Reporting Ch. 14 (Schedule F)

- On page 472, there is a small typo in the solution to part b. in ES 3. The total ceding commission should be **175,000** and the contingent commission payable should be **100,000**
- There are two things to address on certified reinsurers:
  - Since item "G" in the formula is related to slow-payers, we must first determine if the reinsurer is slow-paying before calculating G. If the reinsurer is slow-paying, then G is calculated as described in the paper. If the reinsurer is not-slowing, then G is 0
  - In Odomirok, the Section 2 calculation for Certified Reinsurers includes item "D", which is related to ALL items in dispute, regardless of whether or not they are overdue. However, it should be using item "H", which refers to disputes on recoverables more than 90 days overdue only
  - This first issue above affects the solution for Reinsurer C on MP #5. As the problem is set up, Reinsurer C is NOT slow-paying. Thus, G should be 0 and the final provision for reinsurance is 1.

CAS Financial Reporting Ch. 23 (Purchase GAAP)

- In MP #2 (page 734), the solution to part c skips a few steps at the very end. First, we calculate the future capital charges as 3.015(0.098) = 0.295, 1.206(0.098) = 0.118, and 0.201(0.098) = 0.020. Then, we calculate the risk margin as $\frac{0.295}{1.00155^1} + \frac{0.118}{1.00285^2} + \frac{0.020}{1.00395^3} =$ **$431,639**. Note that we have to use different discount rates here because we are given the full yield curve

Feldblum Surplus

- In MP #11 (page 357), the premium to surplus ratio is listed as 2. It should be **1:2**