LFMC Sample Flashcards

You have downloaded a sample of our LFMC flashcards. The flashcards are designed to help you memorize key material for the SOA's LFMC exam.

The flashcards are in a "Q&A" format that is well-suited for reviewing the material at a high level after you complete section of the online seminar. The cards are sequenced in exactly the same order as the rest of the online seminar. Practicing your ability to recall the material in the form of an answer to a question is a great way to get ready for the actual exam.

Flashcard Formats Available

The same cards are in each format below. Only the format of the cards differs, as explained below.

1. **"Singles"**. This version contains alternating front/back sides of each card in sequence. This format is well suited for PDF viewers on your computer, tablet, or phone. Simply flip through the pages.

2. **"FrontBack"**. This version has 3 cards per page. If you print this PDF double-sided on U.S. Letter (8.5" x 11") paper, the front and back of each card will be aligned. This format also works well on Avery 5388 3x5" index cards, which can be purchased on Amazon. Printing instructions are included with the full flashcard set available in the online seminar.

3. **Review in TIA Study.** The Review screen in TIA Study contains exactly the same flashcard content as the PDF versions and also offers additional features, including spaced repetition and a card Inbox that shows cards based on your progress in the course. Your progress on the Review screen stays in sync across all versions of TIA Study (desktop, mobile, etc.).

Samples of the "front back" format are included in this PDF. You can see samples of the mobile flashcards by simply downloading the app for free.

If you have any questions, email me anytime.

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Describe the primary classifications of life insurance for tax purposes in Canada.

Describe the exempt policy rules in Canada.

Describe how to calculate the exempt test policy accumulating fund.

Source: CIT Ch. 10: Taxation of Life Insurance Policies

Post-Dec 1, 1982 Policies

1. **Exempt policies $\Rightarrow$ insurance-oriented (most favorable)**
   - Inside CSV build-up is only taxed on disposition
   - DBs are 100% tax-free
   - Must pass exempt test (different rules for pre-2017 vs. post-2016)
   - Burden is on insurer to maintain exempt status
2. **Non-exempt policies $\Rightarrow$ savings-oriented (least favorable)**
   - CSV build-up is taxed annually ("accrual taxation")
     - $\text{Income}_t = \text{AF}_t - \text{ACB}_t$
   - Untaxed CSV build-up is taxed at death
   - Includes deferred annuities

Grandfathered Pre-Dec 2, 1982 Policies (**most favorable tax status of all**)

- No exempt/non-exempt distinction and higher cost basis
- If lose grandfathered status $\Rightarrow$ deemed disposition $\Rightarrow$ perform exempt testing

Source: CIT Ch. 10: Taxation of Life Insurance Policies

"Existing" rules for pre-2017 issues, and "new" rules for post-2016 issue

- **If policy fails exempt test, it is non-exempt for life**
- **A coverage remains exempt if this is true for all anniversaries (t's):**

$$\text{AF}_t \leqslant \text{AF}_t^{\text{ETP}}$$

- **AF = MTAR = maximum tax actuarial reserve**
  - Post-2016: MTAR = max(CSV Gross of SC, NPR)
  - Pre-2017: MTAR = max(CSV Net of SC, 1.5 PTR)
- **ETP = Exempt test policy**
  - Post-2016 ETP: 8-pay endowment at 90
    - Mortality = generally same as actual policy
    - Interest rate = 3.5%
  - Pre-2017 ETP: 20-pay endowment at 85
    - Mortality = generally same as actual policy
    - Interest rate = max(contract rate, 4%)

Source: CIT Ch. 10: Taxation of Life Insurance Policies

The AF grades linearly through the pay period, then equals PVFB

$$\text{Post-2016 AF}_t^{\text{ETP}} = \begin{cases} \text{DB}_t \times A_{[x]+8:\overline{90-[x]-8}|} \times \left(\frac{t}{8}\right) & \text{if } t \leqslant 8 \text{ and } [x]+t < 90 \\ \text{DB}_t \times A_{[x]+t:\overline{90-[x]-t}|} & \text{if } t > 8 \text{ and } [x]+t < 90 \\ \text{DB}_t & \text{if } [x]+t \geqslant 90 \end{cases}$$

$$\text{Pre-2017 AF}_t^{\text{ETP}} = \begin{cases} \text{DB}_t \times A_{[x]+20:\overline{85-[x]-20}|} \times \left(\frac{t}{20}\right) & \text{if } t \leqslant 20 \text{ and } [x]+t < 85 \\ \text{DB}_t \times A_{[x]+t:\overline{85-[x]-t}|} & \text{if } t > 20 \text{ and } [x]+t < 85 \\ \text{DB}_t & \text{if } [x]+t \geqslant 85 \end{cases}$$

List the anti-avoidance rules under Canadian insurance taxation.

Describe how the adjusted cost basis is determined for a typical exempt life insurance policy in Canada.

List at least 4 types of dispositions for tax purposes in Canada.

Source: CIT Ch. 10: Taxation of Life Insurance Policies

These rules put additional limits on cash accumulation to prevent abuse

1. **Always use total DB for ETP face amount**
2. **8% rule:** If DB increases by more than 8% between anniversaries:
   - "Issue" new ETP for excess increase
   - Test excess DB's CSV against new ETP AF
   - Post-2016: applies at coverage level
   - Pre-2017: applies to total policy DB
3. **250% rule:** Fund growth capped at 250% every 3 years starting in year 10

$$\frac{\text{Policy AF}_t}{\text{Policy AF}_{t-3}} \leqslant 250\% \quad \text{for } t \geqslant 10$$

Only applies if policy AF $> \frac{3}{20}$ of total ETP AFs
   - If triggered, set all ETP issue dates = max(actual issue date, $t-3$)
   - Will not apply again for 6 years once triggered

Source: CIT Ch. 10: Taxation of Life Insurance Policies

Generally speaking, for an **exempt** policy...

$$\text{ACB} = \sum \text{Premiums} + \sum \text{Taxable POD} - \sum \text{NCPI} - \sum \text{Total POD}$$

- Premiums = all premiums paid except portion funded by a disposition
  - Also include amounts paid to acquire (e.g. life settlement)
- Taxable POD = portion of all dispositions included in income
  - ACB falls by Total POD $-$ Taxable POD
- NCPI = net cost of pure insurance

$$\begin{aligned} \text{NCPI}_t &= q_{x+t} \times (\text{DB}_t - \text{AF}^*_t) \\ q_{x+t} &= \text{prescribed mortality rate} \\ \text{AF}^*_t &= \text{Policy AF ignoring policy loans} = \text{gross cash value (usually)} \end{aligned}$$

Source: CIT Ch. 10: Taxation of Life Insurance Policies

All of the following are considered dispositions:

1. Full and partial surrenders
2. Policy loans
3. Policy dividends
4. Maturity benefits
5. Absolute assignment of ownership (sale, transfer, or gift to another party)
6. If a previously exempt policy fails the exempt test
7. If a non-exempt policy dies