

11. (2 points)

The following information is known about an insurer's Workers Compensation (WC) policy:

- 1-year policy term effective April 1, 2018
- All premium is collected on April 1, 2018
- Earned premium is calculated using the monthly pro rata method

	Calendar Year 2018
Written premium	\$200,000
Losses incurred	\$25,000
Losses paid	\$5,000
Loss adjustment expenses incurred	\$4,000
Loss adjustment expenses paid	\$500
Other expenses incurred	\$3,200
Other expenses paid	\$3,000

a. (1 point)

Calculate the contribution of the WC policy to the insurer's 2018 underwriting income.

b. (1 point)

Calculate the contribution of the WC policy to the insurer's year-end 2018 total liabilities.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors included:

- Stating Public-Private Partnership as this does not describe a mechanism that ensures availability or affordability to employers.
- Self-Insurance – does not provide insurance coverage.
- State acts as reinsurer to private insurance company.
- States can impose fines and other consequences if proof of insurance is not produced and provided to the state.
- States can audit companies to ensure WC coverage was purchased and the benefit is offered.

FALL 2019 EXAM 6U, QUESTION 11

TOTAL POINT VALUE: 2

LEARNING OBJECTIVE: C1

SAMPLE ANSWERS

Part a: 1 point

Sample 1

Underwriting income = earned premium – (incurred loss + incurred LAE + other expense)

Earned premium = $200,000 \times (9/12) = 150,000$

Underwriting Income = $150,000 - (25,000 + 4,000 + 3,200) = \mathbf{117,800}$ = contribution from Workers Comp

Sample 2

By using monthly pro rata method, the policy is assumed to be effective on middle of April

EP = $200,000 \times (17/24) = 141,667$

Loss incurred = 25,000

LAE incurred = 4,000

Other expenses incurred = 3,200

Underwriting income = EP – loss incurred – LAE incurred – Other expenses incurred

U/W income = $141,667 - 25,000 - 4,000 - 3,200 = \mathbf{109,467}$

Part b: 1 point

Sample 1

Loss reserve = $25,000 - 5,000 = 20,000$

LAE reserve = $4,000 - 500 = 3,500$

Other reserve = $3,200 - 3,000 = 200$

Liabilities = $20,000 + 3,500 + 200 = 23,700$

Unearned Premium = $200,000 - 150,000 = 50,000$

Total liabilities = $23,700 + 50,000 = \mathbf{73,700}$

SAMPLE ANSWERS AND EXAMINER'S REPORT

Sample 2

By using monthly pro rata method, the policy is assumed to be effective on middle of April

$$\text{UEPR} = \text{WP} - \text{EP} = 200,000 - 141,667 = 58,333$$

$$\text{Loss reserve} = \text{loss incurred} - \text{loss paid} = 25,000 - 5,000 = 20,000$$

By using similar formula:

$$\text{LAE reserve} = 4,000 - 500 = 3,500$$

$$\text{Other expenses} = 3,200 - 3,000 = 200$$

$$\text{Total liabilities} = 58,333 + 20,000 + 3,500 + 200 = \mathbf{82,033}$$

EXAMINER'S REPORT

For this question candidates were expected to demonstrate basic understanding of Balance Sheet and Income Statement concepts.

Part a

Candidates were expected to be able to correctly calculate the underwriting income given the information provided.

Common errors included:

- Not earning the premium correctly – calculating too few or too many months
- Not subtracting the Other Expenses
- Not realizing the premium needed to be earned

Part b

Candidates were expected to be able to correctly calculate the year-end total liabilities given the information provided.

Common errors included:

- Not including the Unearned Premium Reserves
- Using Incurred Liabilities and not Change in Liabilities
- Not including Other Expenses

FALL 2019 EXAM 6U, QUESTION 12

TOTAL POINT VALUE: 2.75

LEARNING OBJECTIVE: C1

SAMPLE ANSWERS

Part a: 2.25 points

Sample 1

Total Assets = Total Liabilities + Surplus + Non-admitted Assets

Surplus = Prior year surplus + Net Income + Direct charges to Surplus

$$\begin{aligned} &= 4000 - 120 - (290 - 230) - (30 - 20) - 5 + (135 - 132) + (60 - 50) \\ &= 3817 \end{aligned}$$

$$\text{Total Assets} = 2000 + 3817 + 290 = 6107$$