GUIDELINES TO ACTUARIAL PRACTICE IN PRE-NEED
(Adopted October, 2000)

These Guidelines replaced the following documents:
(i) Guidelines to Actuarial Practice in Pre-Need (July 1994)
(ii) Addendum to Sec. VII of the Guidelines (Feb. 1999)
(iii) Minimum Standards of Valuation of Pre-Need Plans (Nov. 1993, amended Aug. 1997)

I. DESCRIPTION OF PRE-NEED PLANS AND DEFINITION OF TERMS

1. Pre-need plans fall under two general classifications: contingent benefit plans and scheduled benefit plans.

   (a) **Contingent benefit** plans refer to such plans where availment of benefits is contingent upon the occurrence of a contingency, like the death of, or the decision of the planholder to utilize the benefit under his plan for himself or another person of his choice. Examples of these are funeral plans, memorial plans, mortuary plans, interment plans, cremation plans, etc..

   (b) **Scheduled benefit plans** refer to plans where the date of availment of the benefit can be set at inception. These include pension plans, educational plans, travel plans and other similar plans.

2. Pre-need plans can either be fixed value plans or actual cost plans

   (a) **Fixed value plans** are plans where the amount of the benefit is fixed at the time the plan is purchased.

   (b) **Actual cost or traditional plans** are plans where the amount of the benefit is dependent on the cost of such benefit or service at the time of availment.

3. Consideration is the price paid for the purchase of a pre-need plan. Considerations under a plan are paid either in lump sum (or single payment), or in multiple sums (or installment payments).

   (a) **Net consideration** is the consideration for the benefit costs taking into account interest rates and applicable contingency factors.

   (b) **Gross consideration** is the net consideration plus loadings for expenses and profit.

   (c) **Expenses** shall include all expenses for marketing, administration and taxes.

4. **Benefit costs** are costs of actual benefit payments including costs of ancillary benefits.

5. **Ancillary benefits** are benefits promised by the pre-need company other than the main benefit.

6. **In-force plans** are plans for which the pre-need company continues to have liabilities for delivery of benefits or services. These include:

    i. plans whose considerations are still payable
    ii. paid-up plans which are not yet paying out benefits
    iii. paid-up plans which are paying out benefits but have not delivered the full benefits

7. **Lapsed plans** are plans which are delinquent in payment and the delinquency extends beyond the grace period.

8. **Cancelled plans** are plans which have remained delinquent for more than the allowed period of reinstatement counted from the start of delinquency.

9. **Paid-up plans** are plans where the considerations have been fully paid.

10. **Fully-availed plans** are plans where guaranteed services or benefits have been fully delivered.

11. **Availment rate** is the ratio of the plans in force at the beginning of the period availing of the main benefit within the given period to the in-force plans at the beginning of that same period. It may be based on the number of plans or amount of benefit. It is used in the formulations for discounting contingent benefit plans.

12. **Withdrawal rate** is the ratio of the number or amount of plans with expected considerations within a given period that discontinue payment of such considerations during the period to the number or amount of such plans with expected considerations at the beginning of the period.

    For paid-up plans, it is the ratio of the number or amount of unavailed or partially availed plans at the beginning of a period which are terminated at the option of the planholder before the end of the period, to the number or amount of such plans at the beginning of the period.

    Note: A withdrawal results in the termination of the contract and may arise from a lapse or surrender. The withdrawal rate is the sum total of the lapse rate and the surrender rate.

13. **Surrender** refers to the termination of a contract at the option of the planholder in exchange for its termination value at surrender date.

14. **Termination value** is the amount the planholder should be paid upon lapse or surrender prior to availment of full benefits.

15. **Transferability** refers to the provision in the pre-need contract which allows the planholder to transfer his rights to the benefits to another.

II. FORMULATIONS FOR PRESENT AND ACCUMULATED VALUES

1. Actuarial formulations for calculating present values or accumulated values of benefits or considerations should be based on the fundamental relationships between benefits and expenses, and considerations. At any time formulations are done, the rate or factors used should take into account the updated values for such factors or rates.

2. At the inception of contract, the present value of gross considerations should at least equal the present value of expected benefits and expenses. Assumptions used to establish this relationship should be reasonably applicable and attainable.

III. ASSUMPTIONS REGARDING INTEREST, INFLATION, EXPENSES, WITHDRAWAL AND OTHER CONTINGENCIES

1. Assumptions and methods must be selected and applied with integrity, informed judgment and perspective in relation to the purpose for which the results are intended. Actuarial assumptions should be appropriate to the specific circumstances of the company. They should be based on experience or anticipated experience which is reasonably applicable to the specific business, considering the characteristics of that business and the trends which may reasonably be expected in the future.

2. The interest assumption is the series of yield rates assumed on the funds to be invested over the lifetime of the contracts involved.

   (a) The yield rate includes dividends, interests and rental income and is net of all investment taxes and expenses.

   Any other investment income or losses e.g. capital gain/losses may be included provided there is sufficient justification.

   (b) Factors which may influence interest rate assumptions include the types of allowable investments, cash flow patterns, company investment policies, current trends in company's investment yields, trends in other companies' investment yield if the company's own experience is limited, inflation trends and government policies. The interest assumption used for pricing should be that which is sustainable over the life of the plan, while valuation interest assumption should be that which, at the time of valuation, is justifiably attainable.

   (c) Forecast of investment yield rates should take into account the relation of these rates to the contract durations and contract exposures to withdrawals and/or availments.

   (d) It is recognized that the probability of deviation of actual from assumed interest rate on funds invested in the years immediately after issue is less than those on funds invested many years after issue. For this reason, the provision for adverse deviation should generally be greater for later durations than for earlier durations.

3. All expenses associated with acquiring and maintaining the business must be recognized in the determination of gross considerations, as well as in the annual valuation of liabilities of the company.

   (a) When testing adequacy of gross considerations, all expenses associated with acquiring and maintaining the business should be considered, including those expenses which are payable after all considerations are paid. These should include acquisition costs such as commissions and overrides, issue costs and the like, licensing fees, registration fees, general administrative and other maintenance expenses, including expenses for termination and/or claims servicing, and taxes. If insurance coverages are provided, whether during or after the period for which considerations are payable, premiums for such coverages should be considered.

   (b) As much as possible, actual expense studies of the company concerned should significantly affect the expense assumption, modified only to reflect expected highly probable trends in the business; e.g., effect on expenses of increased volume of business and the effect of inflation on unit costs.

   (c) Judgment must be exercised as to the applicability of current expense rates to future years. Expense assumptions should reflect medium or long term trends relative to the expected duration of the contracts. The underlying assumption for future inflation should be consistent with that considered in selecting the interest assumption.

4. Inflation is the economic condition associated with rising price levels. It should be emphasized that inflation in benefit cost is specific for each product; for instance, it might be 7 ½ % for mortuary plans, but 22% for educational plans.

   (a) In pre-need contracts, inflation affects both the determination of gross considerations and the cost of benefits of actual cost plans.

   (b) Inflation affects directly the following actuarial assumptions:

      i. Investment yield rates – The investment yield rate from various categories of investments may be affected by inflation in different directions and/or degrees.

      ii. Cost of benefit of actual cost plans – a higher rate of inflation increases the cost of the benefits of actual cost plans.

      iii. Expenses – higher inflation rates will increase the expenses of acquiring and maintaining the business and delivering the promised benefits.

   (c) The actuarial assumptions which may be indirectly affected by inflation include rates of withdrawals, earlier availments, etc.

   (d) The effects of inflation may be recognized in actuarial assumptions either implicitly or explicitly, except for actual cost plans where the effects of inflation must be considered explicitly.

(e) It is recognized that actuaries may have differing opinions as to the impact of a given expected rate of inflation upon each of the actuarial assumptions.

5. Withdrawal rate. It should be noted that the withdrawal of a planholder is entirely at the option of the planholder. Thus, the effect of the withdrawal rate on all other factors must always be taken into account.

(a) The company's own experience should be used as a guide to the expected withdrawal rates in the future.

(b) Factors to be considered in the determination of withdrawal rates include type of plan, duration, amount of consideration, amount of benefit, inflation, marketing techniques, and economic outlook.

(c) Care should be taken when providing margins for deviations in these rates and the effects of such deviations should be duly tested and provided for under different circumstances.

6. Availment rate assumptions should consider transferability of the plan

(a) As much as possible, the company's own experience should be used in the assumption for availment rates.

(b) Availment rates for transferable benefits should include not only the rate of the contingency but also the rate at which the plan is availed of due to the transfer.

(c) For memorial plans, the availment rate to be used in pricing should be graduated to equal one (1) not later than the end of the 20th year. The graduation of the availment rates is left to the discretion of the actuary.

IV. DETERMINATION OF ACTUARIAL RESERVE LIABILITIES

1. Under a given set of assumptions at inception, the prospective reserve liability is equal to the retrospective reserve liability for all durations. At some later time, changes arising from the combined effects of updated assumptions may change this relationship.

2. The actuarial reserve liability must at all times be determined on a prospective basis and is equal to the excess of the present value of all future benefits and benefit costs over the present value of the contributions to reserves. Computations shall be done on an individual basis; otherwise, the method used should be fully disclosed. All assumptions used in the valuation should be updated to reflect the most likely trends as indicated in Section III hereof.

3. The contributions to reserves indicated in Paragraph 2 of this Section are amounts such that at inception, the present value of these contributions is equal to the present value of the benefits and benefit costs, where the nature of the benefits (whether fixed value or actual cost) is taken into account.

4. The period within which contribution to reserves is assumed to be made should not exceed the period for which considerations are to be paid. For paid-up plans, contributions to reserves is zero.

5. Reserves on contracts should never be less than their corresponding termination values.

6. Reserves shall be maintained on plans which may not be currently in-force, but which are in their reinstatable period.

V. DETERMINATION OF TERMINATION VALUES

1. In the determination of termination values for pre-need plans, the equity of the planholder must be taken into account without prejudice to the right of the plan issuer to collect what is due it for the discontinuance of the contract, at the option of the planholder, prior to the contracted time of delivery of the benefits.

2. Termination values represent the equitable share of the planholder in the gross considerations he has paid to the issuer, as well as the expenses already incurred by the issuer in the acquisition and maintenance of the contract prior to termination. Although the SEC rules and regulations require minimum termination value rates expressed as percentages of the gross considerations, the actuary shall consider such rates as minimum only and adopt higher rates should these be justified by reasons of equity.

VI. RESPONSIBILITIES OF THE ACTUARY WITH RESPECT TO TRUST FUNDS

1. With respect to trust funds, the actuary shall compare the amount of reserves determined after an actuarial valuation to the amount of the trust fund. The actuary shall make a statement of comparison following the minimum requirements of the Valuation Certification Form issued by the regulator.

2. The actuary shall make specific recommendations that the rates of contributions to the trust fund for each plan shall not be less than the contributions to reserves as defined in Section IV – Determination of Actuarial Reserves Liabilities. Furthermore, the rates of contributions shall not be less than the minimum rates of deposits required in the SEC rules and regulations.

3. With respect to financial statements, the actuary shall make the necessary statement of opinion that the actuarial reserves must be reflected as liabilities in the Balance Sheet.

VII. STATEMENT OF ACTUARIAL OPINION FOR PRE-NEED COMPANY

1. The Statement of Opinion should be based upon "commonly accepted actuarial standards" and "sound actuarial principles" which arise from using and adopting concepts in actuarial literature. It should clearly indicate the bases for such opinion. The actuary's judgment in developing standards for the actuarial tests and calculations must take into account the specific contract characteristics.

2. In certifying to the adequacy of the pricing of a pre-need product, the actuary must see to it that the assumptions used in such pricing have been adequately and effectively communicated to the company, including the possible effects of adverse deviations from these assumptions.

3. In certifying to the actuarial reserve liabilities of a pre-need company, the actuary shall consider the aggregate reserve for the pre-need contracts, as well as all liabilities arising from benefits the delivery of which might have been contracted out by the pre-need company. Care must be taken to adequately disclose all pertinent and material information to minimize the possibility of misinterpretation or misunderstanding by those relying on the actuary's work.

4. The Statement of Opinion shall include:

   (a) the actuary's name and his relationship with the company
   (b) the subject/s on which the opinion is being made, describing the scope of the actuary's work
   (c) a statement expressing the actuary's opinion on the subject and the appropriateness of the assumptions used
   (d) A disclosure of any information which, if not disclosed, might reasonably be expected to lead to an incomplete understanding of the opinion.

5. The Statement of Opinion on pricing shall include, in addition to Paragraph 4, above: an opinion on the adequacy of the considerations and benefit cash flows arising from the contracts. Projections of considerations and benefit cash flows under various assumptions as to future interest rates considering the contractual obligations and characteristics of the company's contracts should be made and considered in making an opinion.

6. The Statement of Opinion on actuarial reserve liabilities shall include, in addition to Paragraph 4, above:

   (a) A statement regarding the data or records upon which the actuary has based his valuation. If the actuary has relied on records supplied by an officer of the company or the independent auditor, he/she should make a statement to that effect, after having conducted a review and the necessary tests.

   (b) Actuarial assumptions used in calculating the actuarial liabilities, including but not limited to assumptions on interest or discount rates, rates of inflation, expenses, availment rates, and other rates of decrement.

   (c) Actuarial methods used in calculating the actuarial liabilities; if there are changes in actuarial methods and assumptions from those previously employed, the change should be stated in the statement.

   (d) A statement as to whether the reserves and other actuarial items

      i. are computed in accordance with commonly accepted actuarial standards consistently applied, and are fairly stated in accordance with sound actuarial principles;

ii. are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

iii. meet the requirements of the rules and regulations of the regulator as they pertain to actuarial matters;

iv. include sufficient provisions for all actuarial reserves and related items which ought to be established, as well as all unmatured obligations of the company guaranteed under the terms of its contracts, including items that are computed by means of a long-term discontinuing of future payments, which are dependent upon the occurrence of events in the future, such as for example, reserves for optional modes of settlement at maturity;

v. are computed on the basis of assumptions consistent with those used in computing the corresponding items in the preceding yearend; and if not, the change should be mentioned, and the reason for such change given;

Attached is a sample VALUATION CERTIFICATION, which is a revised version of EXHIBIT E OF SEC-BED MEMO CIRCULAR NO. 06, Revised Series of 1994.

This sample certification presents the minimum basic information which should appear in the certification. The actuary should also include all other information relevant to the matter being certified.

7. Although the valuation bases of invested assets and their yield are matters to be considered in reserve valuation assumptions, the actuary is not expected to express an opinion with regard to the general assets of the company. The regulations spell out the valuation bases for assets in considerable detail, or refer to common practices of financial institutions which are acceptable to the regulator. The actuary can rely on the valuation of assets in accordance with those procedures, and the resulting yield, in determining the valuation interest assumptions. In any case the assumed investment return should be consistent and compatible with the investment results and the quality of the assets of the trust fund.

8. An actuary must be prepared to justify the use of any procedures that depart materially from those set forth in these Guidelines and must include in any actuarial communication disclosing the results of the procedures, an appropriate statement with respect to the nature, rationale, and effect of such departures.

VIII. MINIMUM CONTENTS OF AN ACTUARIAL REPORT FOR PRICING

1. Statement of Opinion

2. The contract provisions on the benefits promised by the plan and the period for which the considerations are payable;

3. The actuarial assumptions used in the pricing which shall include, whenever applicable, interest/discount rates, inflation rates, withdrawal rates, availment rates, mortality or morbidity rates, expenses, and profit targets;

4. Sample viability analysis showing results each year for all years from inception to the end of the benefit payment period of the plan.

IX. MINIMUM CONTENTS OF A VALUATION REPORT

1. Statement of Opinion (See Section VII)

2. A schedule showing the following information, for the current and prior years:

   (a) number and aggregate face value of in-force file
   (b) reserves and aggregate face value of paying plans
   (c) reserves and aggregate face value of paid-up plans (availing/not yet availing)
   (d) reserves and aggregate face value of lapsed plans w/in its reinstatable period.
   (e) reserves for insurance premium that are chargeable to the trust fund beyond the premium-paying period.
   (f) assets of the trust fund both at cost and at market value

3. A schedule showing the experience of the company for the last five years on:

   (a) the net investment rate of return on the trust fund assets, and
   (b) the rate of increase/decrease in benefit payments.

X. RELATIONSHIP WITH AUDITOR

1. When the actuary's work relates to financial statements subject to audit, the actuary should disclose to the auditor the actuarial assumptions and methods used. If approximations are used, the results should not materially differ from results using more precise methods.

2. An actuary who is responsible for any part of the financial statements which are subject to audit must fully disclose to the auditor his relationship with the company. Likewise, an actuarial opinion that is made part of the published financial statements should state clearly the relationship between the company and the actuary.

3. Should the auditor be unable to form an opinion on the company financial statements on the basis of the information furnished by the company actuary, and the auditor consults with another actuary, the company actuary should make all related materials available for the other actuary's review, and be available for further explanation should this be required.

4. The actuary should disclose his relationship with the auditor, if any.

VALUATION CERTIFICATION

Please be informed that I have undertaken the actuarial valuation of the pre-need plans of ______________as of ______________. I have relied on data submitted by _____________, and have conducted tests necessary to satisfy myself as to the reasonableness and integrity of such data.*

The actuarial assumptions used in this actuarial valuation are in my opinion, reasonable and appropriate for the plans included in this valuation.

The actuarial reserve liabilities for all benefits and guarantees therein are valued in accordance with the assumptions, and all insurance benefits included in the plan agreement are adequately covered under a separate insurance contract.

I hereby certify that the actuarial formulations used in this actuarial valuation are in accordance with generally accepted actuarial principles and practices, and also with the existing laws, pertinent rules and regulations of the SEC as they pertain to actuarial matters. The reserve liabilities aggregating to __________________ in this actuarial valuation are in accordance with the above actuarial formulations and assumptions.

Based on the Trustees' Certifications, the Trust Fund Equity has a net balance of ______________ as of _________________.

Case A: If Trust Fund is sufficient:

The Trust Fund equity is sufficient to cover the actuarial reserve liabilities.

Case B: if Trust Fund is deficient:

The deficiency from the actuarially valued reserve liabilities amounting to ________________ should be in the Trust Fund within the time limit prescribed by the SEC regulations.

* Any missing or unreported data/information as discovered by the Valuation Actuary and its pertinent financial impact shall be disclosed by the Valuation Actuary and included in this Certification.