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Actuarial Standard 4.02

MINIMUM SURRENDER VALUES AND PAID-UP VALUES

Life Insurance
Actuarial Standards Board

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INTRODUCTION The Standard

The actuarial standard for minimum surrender values and paid-up values is established under the Life Insurance Act 1995 (the Act).

It prescribes the minimum value of a life policy were it to be surrendered (or made paid-up) at a date prior to its full term. The standard prescribes the determination of this value in two distinct contexts; that required for the purposes of the Solvency Standard, and that required for payment on actual surrender at the policy owner's request.

In accordance with this dual purpose, the actuarial standard for minimum surrender values is important in achieving two objectives:

- in protecting the interests of surrendering policy owners in the situation of terminating (or making paid-up) life insurance policies prior to their full term, by providing for a minimum amount; and
- in protecting the interests of remaining policy owners, by both:
  - ensuring that the costs of termination are being appropriately borne by the surrendering policy owners; and
  - providing a base to the value of policy liabilities which is used as a component in the determination of the Solvency Requirement for the statutory fund.

The actuarial standard prescribes a set of principles, and in accordance with these principles, an actuarial methodology for the calculation of Minimum Surrender Values (and Paid-up Values). (The minimum paid-up value of a policy is explicitly covered in section 9, however the principles stated in this standard in the context of early termination of policies, should be taken to have general applicability to paid-up values.)

The principles and the methodology have been developed in consideration of the regulatory framework of which the actuarial standard is but a part. In particular, requirements are in place for life companies to disclose product information in a form that provides useful and meaningful information to the policy owner prior to entering, and during the term of, a contract. The existence of a comprehensive product information disclosure regime allows a less prescriptive approach to the determination of Minimum Surrender Values - particularly for the 'unbundled' forms of business. However, product information disclosure of itself, is not considered sufficient to protect the interests of policy owners from unexpected additional charges applied on surrender.

The specification of Minimum Surrender Values necessarily incorporates the specification of prescribed levels in respect of certain components of the costs attributed to the policy. This implicit restriction on those charges in no way constrains the actual charges which the company may impose prior to surrender - companies remain free to design, and price policies as they wish.

Application to Friendly Societies

The Act was amended in 1999 to extend its application to friendly societies that undertake life insurance business. This standard is applicable to all life companies (registered under the Act) including friendly societies. In its application, the standard will, at times, make distinction between friendly societies and other life companies.

Application of the Surrender Value Standard

The Surrender Value Standard is made for the purposes of section 65 (solvency provisions), section 207 (surrender provisions) and section 209 (paid-up provisions) of the Life Insurance Act 1995.

It applies:

a) in respect of all life insurance business of a registered life company other than that written in a statutory fund which includes only business written overseas in one or more Approved Countries; and

b) to all calculations made on or after 30 June 2002.

The Standard has been written in the context of Australian legislation and bases of taxation. Appropriate adjustment should be made, for example to allow for different bases of taxation (and the implications for parameters prescribed on a net of tax basis), where this standard is being applied to overseas business.

PART A - PRINCIPLES

SECTION 1 The Minimum Surrender Value

Overview

Life insurance policies are contracts between policy owners and life insurance companies. There are many different types of policy, some providing only insurance against a future contingent event, some only investment of monies and some both insurance and investment. There is also a great variety of terms and conditions applicable to the different policies including, among other things, the obligations on a policy owner to maintain a policy in force and on the life company to pay the specified benefits, if any, on the occurrence of the events insured under the policy.

Policies including an investment element are generally required to make provision, subject to some minimum conditions being fulfilled, for a payment to be made to a policy owner who requests surrender of the policy before it has run its full term.

The purpose of this Standard is twofold.

1. To prescribe, for the relevant policies, the minimum amount which must be paid (provided for) by the life company when the policy owner requests that the policy be surrendered (made paid-up).

2. To prescribe an amount which is appropriate as the base value for the Minimum Termination Value from which the Solvency Requirement of a statutory fund is determined.

During the development of the Standard it was recognised that there are three broad categories of charges levied against life policies by the life company to meet its expenses and provide for its profits. This categorisation - according to the timing of application of the charges - has been adopted throughout the Standard, as:

- front end charges;
- ongoing charges; and
- back end charges.

The most important (and variable) factors affecting the surrender value of the policy are considered the charges in respect of the establishment and termination of the policy - or the front end and back end charges.

Further, while regular product information disclosure reinforces to the policy owner the impact of ongoing charges on the in force value of their policy - the effectiveness of disclosure requirements in respect of these other charges (front end and back end charges) is arguably less.

The Standard therefore seeks to limit the adverse effects on the policy owner of excessive charges on the establishment of a policy and significant reductions in the in force value of the policy due to charges levied on termination.

1.1 The Minimum Surrender Value of a policy must provide a basic level of protection to the owner of the policy being surrendered, while not disadvantaging the interests of the owners of other policies within the statutory fund or those of the shareholders.

1.2 The Minimum Surrender Value must allow for policy transactions during the period the policy was in force. In particular:

a) in determining the Minimum Surrender Value, all premium increases are to be treated as new business; and

b) appropriate adjustment for other policy transactions should reflect the principles of this section and be consistent with the prescribed methodology.

1.3 The Minimum Surrender Value must allow for the application of charges in a manner consistent with the pricing structure of the policy and the disclosures in the policy documentation and promotional material.

l.4 The Minimum Surrender Value must not allow for ongoing charges (charges in respect of the costs of ongoing services provided to the policy owner during the period the policy is in force) at a level exceeding the level actually applied to the policy.

1.5 The Minimum Surrender Value must not allow for charges, other than ongoing charges referred to in paragraph 1.4, at a level exceeding the level prescribed by this Standard (see Part B - Methodology).

SECTION 2 Calculation of the Minimum Surrender Value

2.1 The calculated Minimum Surrender Value applies, in all cases, as the base amount for the determination of

the Minimum Termination Value, a component of the Solvency Requirement of the company. The Actuary should be able to demonstrate that the Minimum Termination Value for a Related Product Group at least equals the prescribed Minimum Surrender Value.

2.2 It is not a requirement of this Standard that the prescribed Minimum Surrender Value be determined and recorded for each individual policy. However, in the case of payment to an individual policy owner, the Actuary should be able to demonstrate that the surrender value paid at least equals the prescribed Minimum Surrender Value.

SECTION 3 Payment of the Minimum Surrender Value

3.1 In the case of a friendly society, although a Minimum Surrender Value is required to be calculated for the purposes of the Sovency Standard, the payment of that prescribed Minimum Surrender Value is not required. Rather, the Minimum Surrender Value for payment purposes for the company is the Contractual Minimum Value.

3.2 For other companies, although a Minimum Surrender Value is required to be calculated for the purposes of the Solvency Standard, payment of that prescribed Minimum Surrender Value is not required in respect of policies for which:

a) the date of issue was prior to 1 July 1995; and
b) no regulated minimum surrender value applied to the policy at the date of issue; and
c) the policy documentation and promotional material clearly discloses the non availability of a surrender entitlement.

Rather, the Minimum Surrender Value for payment purposes for these policies is the Contractual Minimum Value.

3.3 Further, for a company which is not a friendly society, although a Minimum Surrender Value is required to be calculated for the purposes of the Solvency Standard, there are certain classes of business for which the payment of that prescribed Minimum Surrender Value is not required.

These classes are:

a) Regular Premium Business in force for less than three years;
b) overseas business;
c) Wholesale Business; and
d) Reinsurance Business.

Rather, the Minimum Surrender Value for payment purposes for these classes of business is the Contractual Minimum Value.

3.4 In the circumstances where the Minimum Surrender Value calculated in accordance with section 2 does not apply for payment purposes (and hence the interests of individual policy owners are not affected), it is appropriate to use reasonable approximate methods for the determination of that Minimum Surrender Value.

PART B - METHODOLOGIES

Overview

To recognise the diversity of product range available within the life industry, and within that range a diversity of policy structure and price, the Surrender Value Standard provides methodologies for the calculation of the Minimum Surrender Value separately for the different major groups of policy type.

Different bases are discussed for the major different policy types, as follows:

- unbundled investment business;
- traditional business;
- fixed term/rate and income stream business; and
- risk business.

Within each of these major groups of policy types, the methodology recognises, usually through the prescribed parameters, the different nature of:

- regular premium and single premium business;
- participating and non-participating business; and
- superannuation and ordinary business.

It is not deemed practicable to prescribe a methodology to cover all possible variations of policy, or pattern of policy transactions, which may be, or may become, available. Ultimately , it is the responsibility of the Actuary to apply this Standard, adopting the prescribed methodology where explicitly provided, or adopting consistent approaches, in accordance with the principles of the Standard, where there are no specific provisions for a type of policy.

SECTION 4 Unbundled Investment Business

4.1 For Unbundled Investment Business, the Minimum Surrender Value is determined at the date of surrender as the greater of:
a) the Contractual Minimum Value; and
b) the Prescribed Account Value.

4.2 Prescribed Account Value

4.2.1 Subject to paragraph 4.2.2, the Prescribed Account Value is determined as the sum of:

a) the transitional amount; and
b) the premium(s) paid subsequent to the Date of Commencement; and
c) the Normal Investment Earnings credited in relation to the transitional amount in (a) and premiums in (b);

reduced by the sum of:

d) Normal Ongoing Charges subsequent to the Date of Commencement, in accordance with paragraph 4.3; and
e) other charges at the prescribed level in relation to the premium(s) paid subsequent to the Date of Commencement; and
f) other charges at the prescribed fixed dollar level; and
g) the Normal Investment Earnings on the Normal Ongoing Charges in (d) and other charges in (e) and (f).

4.2.2 In the special circumstances of Education Bond Business, the Prescribed Account Value is determined as for paragraph 4.2.1, but excluding the requirements of subparagraphs (c) and (g) in respect of Normal Investment Earnings.

4.2.3 The transitional amount is the Prescribed Account Value at the Date of Commencement determined in accordance with section 8, or zero where the policy is issued subsequent to the Date of Commencement.

4.2.4 The Date of Commencement is:
a) in the case of a friendly society, 30 June 2002; and
b) in all other cases, 30 June 1998.

4.3 Normal Ongoing Charges

4.3.1 The Normal Ongoing Charges are to be determined by the Actuary in accordance with the principles of Section 1.

4.3.2 Normal Ongoing Charges are the charges in respect of the ongoing costs of insurance services and administering, maintaining and servicing the policy actually levied on the policy. Charges levied against a policy for the costs associated with the establishment or termination of the policy are not Normal Ongoing Charges for this purpose - such charges may either be:
a) applied explicitly;
b) applied implicitly through differential ongoing charges based on duration or time of premium payment; or

c) applied implicitly in a level ongoing charge structure, where an explicit up front or termination charge also applies.

4.3.3 Where there are no explicit up front or termination charges and ongoing charges do not vary based on duration or time of premium payment, then those charges are Normal Ongoing Charges for this purpose even though they contain an implicit component for the costs associated with the establishment or termination of the policy.

4.3.4 In the particular situation where charges are structured as level ongoing charges throughout the term of the policy plus an explicit charge on establishment or termination, it may not be appropriate for the total ongoing charges to be taken as Normal Ongoing Charges. Rather, the Actuary must determine the Normal Ongoing Charges by excluding from the ongoing charge any component, implicit in the basis for pricing the product, associated with the recovery of the costs of establishment or termination. For this purpose, the Actuary must deduct from the ongoing charges the identified recovery component for a prescribed period of one third of the term of the policy or 10 years if less.

4.3.5 In determining the Prescribed Account Value for policies with a date of issue prior to the Date of Commencement, the Actuary should assume the total ongoing charges are Normal Ongoing Charges for the purpose of paragraph 4.3.4.

4.4 Normal Investment Earnings

4.4.1 Normal Investment Earnings are to be determined by the Actuary in accordance with the principles of section 1.

4.4.2 Normal Investment Earnings are the investment earnings (net of charges) actually credited to policies. Where a company has a practice of differential charges against investment earnings based on duration or time of premium payment, it is the investment earnings (net of charges) credited at the later durations or to later premiums which are Normal Investment Earnings.

4.4.3 In the case where investment earnings are credited on a vested and non-vested basis, it is the vested investment earning credits which are considered normal for this purpose provided the non-vested investment

credits are fully, accurately and clearly identified, including the quantum of the non-vested credit, in the policy documentation and promotional material.

4.4.4 It is noted that implicit charges against investment earnings are treated consistently as ongoing charges. In the circumstances where a recovery component is identified (as required by paragraph 4.3.4), and to the extent that recovery component is defined as a component of the implicit charge against investment earnings, the Normal Investment Earnings should be adjusted accordingly. (That is, the Normal Investment Earnings should include that part of the recovery component.)

4.5 Prescribed Parameters

4.5.1 For policies in force at the Date of Commencement, the Actuary is responsible for determining the balance of the prescribed parameters for other charges in relation to premiums paid, taking account of the allowance for these charges implicit in the determined transitional amount.

4.5.2 The prescribed parameters in respect of other charges recognise the class of business (and accordingly basis of taxation) and premium payment method. The prescribed parameters are set out in Attachment 1 - Part I and Part II.

SECTION 5 Traditional (including Long Term Risk) Business

Overview

A significant volume of Whole Life Insurance, Endowment Insurance and Pure Endowment policies continue to be maintained by life companies. However, little new business under these types of policies is sold and the total volume of such business in force continues to decline slowly.

It is not the intent of this Standard to inhibit product design and innovation. Despite current new business volumes being low for traditional business, a Minimum Surrender Value requirement should be available which does not inhibit possible future initiatives in this area.

The net premium method, a long established method, while recognised as somewhat technical, has generally proved satisfactory for these types of policy. The Standard has, therefore, essentially maintained that methodology. For in force business the Standard has maintained the bases currently in use under the actuarial standard “Transitional Provisions for the Calculation of Paid-up Values and Surrender Values” in force on 30 June 1998.

For new business an option is provided of this basis, or a modern basis. Due to the bundled nature of this business, it is a complex matter requiring yearly valuation to separately identify the costs of different services. The modern basis is, however, intended to reflect minimum parameters broadly consistent with those applying to unbundled investment business.

5.1 Traditional Business other than Funeral Bond Business

5.1.1 For Traditional Business, other than Funeral Bond Business, in force at the Date of Commencement the Minimum Surrender Value is determined as:

a) in the case of a friendly society, the Contractual Minimum Value; and

b) otherwise, the value determined by the method for in force business as set out in Attachment 2 - Part I, with prescribed parameters for in force business as set out in Attachment 1 - Part III.

5.1.2 For Traditional Business, other than Funeral Bond Business, written subsequent to the Date of Commencement the Minimum Surrender Value may be determined either:

a) in accordance with subparagraph 5.1.1(b); or

b) using the method for new business as set out in Attachment 2 - Part II, with prescribed parameters for new business as set out in Attachment 1 - Part IV.

5.1.3 The basis for determination of the Minimum Surrender Value, once adopted for a block of new business under paragraph 5.1.2, must be applied consistently over time in respect of that block.

Funeral Bond Business

5.2 There is no prescribed Minimum Surrender Value for Funeral Bond Business, other than that which may be provided for in the policy documentation and promotional material.

SECTION 6 Fixed Term/Rate and Income Stream Business

Overview

Income Stream Business provides the policy owner, in exchange for a lump sum payment at the commencement of the policy, a stream of income payments for a term either fixed or dependent on the life of the policy owner. (Fixed Term/Rate policies are a particular form of this type of business for the purposes of this Standard.) Because of their nature, the terms and conditions of this business are, generally, more fully described at the outset of the policy.

Where the income stream is payable for a fixed term, or there is some other form of guarantee on the income stream, it is reasonable that, should the policy owner terminate the arrangement prior to completion of that term or fulfilment of that guarantee, they receive compensation for their outstanding entitlements.

It is in the nature of this business, generally, that the investment strategy of the life company is to match the investment risks of the assets supporting the liabilities with those liabilities. A policy owner terminating the policy during the contracted term defeats the investment strategy of the life company which could adversely impact the future investment returns. Accordingly, a surrendering policy owner must expect to receive a lower amount, and perhaps considerably lower, than the original value of those outstanding entitlements.

Deferred annuities, during the period of deferment, and allocated annuities, are not considered income stream business. Such policies should be included in the appropriate investment business classification for determination of Minimum Surrender Values.

6.1 Immediate Life Annuities

6.1.1 For Immediate Life Annuities other than those covered by paragraphs 6.1.2 and 6.1.4, there is no prescribed Minimum Surrender Value other than that which may be provided for in the product documentation and promotional material.

6.1.2 For immediate life annuities which provide for a return of the whole or a part of purchase price on the

death of the policy owner (the death benefit), the Minimum Surrender Value is determined as the lesser of:

a) the value, at the prescribed rate, of the future payments of:

   i) income assuming the annuity is a term certain for a term equal to the expectation of life of the policy owner; and

   ii) the death benefit assuming payment at the expiration of that term; and

b) the face value of the death benefit.

6.1.3 For the purposes of paragraph 6.1.2, the expectation of life of the policy owner should be determined on the basis last adopted by the Actuary for the purposes of the Valuation Standard.

6.1.4 For immediate life annuities which provide a return of the balance of the purchase price on death of the policy owner, the Minimum Surrender Value is determined as the value, at the prescribed rate, of the future payments due to and including the 'last date'.

6.1.5 For the purposes of paragraph 6.1.4, the last date is the date at which the aggregate of the future payments and the payments already made prior to the date of surrender equals the purchase price of the annuity. The payment on the last date may be a partial payment and should be allowed for accordingly.

6.1.6 For immediate annuities payable for a fixed term and life thereafter, the Minimum Surrender Value during the fixed term is determined in accordance with paragraph 6.2. After the fixed term, the provisions of paragraph 6.1.1 apply.

6.2 Immediate Term Certain Annuities and Fixed Term/Rate Business

6.2.1 For immediate term certain annuities and Fixed Term/Rate Business, the Minimum Surrender Value is determined as the value, at the prescribed rate, of the future guaranteed payments due to the end of the term.

6.2.2 For Fixed Term/Rate Business the term is that for which the fixed rate is applicable (or current fixed rate, if subject to a roll over mechanism).

6.3 The value determined in accordance with this section, but prior to application of this paragraph, may be

reduced by a prescribed fixed dollar amount representative of an administration or transaction charge in determining the Minimum Surrender Value.

6.4 Prescribed Parameters

6.4.1 The prescribed amount for the purposes of paragraph 6.3 is set out in Attachment 1 - Part I.

6.4.2 The prescribed rates for the purposes of this section are set out in Attachment 1 - Part V.

6.5 The Actuary, in determining the Minimum Surrender Value for an income stream policy which provides for more than one life, should make appropriate allowance for the multiple lives and relevant policy conditions.

SECTION 7 Risk Business

Overview

The introduction to the Standard establishes the need for a prescribed Minimum Surrender Value in respect of insurance policies with an investment component. Risk Business, as defined for the purpose of this Standard, does not include a significant investment component. For this business the premium is more closely matched to the services provided, and accordingly, the justification for payment of surrender values is reduced, and the need for policy owner protection through prescribed minimum surrender values is not warranted.

7.1 There is no prescribed Minimum Surrender Value in respect of Risk Business, other than that which may be provided for in the policy documentation and promotional material.

SECTION 8 Transitional Provisions

Overview

Policy owners must be protected from a reduction in the guaranteed minimum surrender value of their policy at the time of introduction of a new Standard. Accordingly, it is necessary to implement provisions specific to the transition of existing business from the old regime to the new.

8.1 For Unbundled Investment Business in force at the Date of Commencement, the Prescribed Account Value as at that date is determined as the greater of:

a) the normal Contractual Minimum Value; and
b) the Minimum Surrender Value, calculated in accordance with the actuarial standard in force immediately prior to that date.

8.2 For the purposes of paragraph 8.1, normal Contractual Minimum Value refers to the Contractual Minimum Value adjusted as appropriate by the Actuary for the effect of any short term performance guarantees applicable at that date.

8.3 For policies in force at the Date of Commencement, other than Unbundled Investment Business and subject to paragraph 8.4, the Minimum Surrender Value as at that date is that determined in accordance with the actuarial standard in force immediately prior to that date.

8.4 In the case of a friendly society, there was no actuarial standard for Minimum Surrender Values in force immediately prior to the Date of Commencement. The Minimum Surrender Value should be determined, in all cases, as the Contractual Minimum Value.

SECTION 9 Minimum Paid-up Values

Overview

Section 209 of the Act requires that under regular premium policies, the policy owner may request that a life policy be made paid-up with no further premiums payable.

This provision is an important requirement for Traditional Business, where there is a contractual relationship between the benefit entitlements and ongoing premiums. Where no further premiums are payable, it is necessary to re calculate the benefit entitlement of the policy owner - the paid-up value.

The provision is of lesser relevance for other types of policies. For example, where no further premiums are paid on an unbundled investment contract, the contract generally continues in accordance with the conditions in the policy document so that the disclosed annual charges will be deducted from the account value and investment credits will continue to be added.

If an unbundled investment contract is to be made paid-up at the policy owner's request, the life company may not have fully recouped the initial expenses incurred when the policy commenced and an adjustment may need to be made to the account value.

9.1 In the case of a friendly society, there is no requirement to provide a minimum paid-up value on policies.

9.2 In all other cases, the minimum paid-up value of a policy is to be determined using the same principles as apply under this Standard for the determination of Minimum Surrender Values.

9.3 Traditional (including Long Term Risk) Business

9.3.1 For regular premium Traditional Business the Minimum Paid-up Value is determined as at the date immediately preceding the due date of the first regular premium which is unpaid or not advanced in accordance with non forfeiture provisions.

9.3.2 The amount of the Minimum Paid-up Value is determined on a net premium basis as set out in Attachment 2-Part I and Part II, adopting the appropriate parameters as set out in Attachment 1-Part III and Part IV. The basis adopted should be consistent with that used for the determination of the Minimum Surrender Value.

9.4 Unbundled Investment Business

9.4.1 For regular premium Unbundled Investment Business the Minimum Paid-up Value is determined as at the effective date of the policy becoming paid-up. At that date the Minimum Paid-up Value equals the greater of:

a) any contractual minimum paid-up value under the policy; and
b) the Minimum Surrender Value.

9.4.2 Subsequent to that date, the Minimum Paid-up Value may make appropriate allowance for ongoing

charges, investment earnings and other policy transactions in accordance with the principles of section 1.

9.5 Where there is a debt secured by a policy, in determining the Minimum Paid-up Value the Actuary may either:

a) retain the debt, secured against the paid-up value of that policy; or

b) extinguish the debt, reducing the amount of the paid-up value of that policy accordingly.

ATTACHMENT 1 - PRESCRIBED PARAMETERS

The prescribed parameters in the following Parts are, where relevant, shown PRE and POST, to reflect a change in the taxation arrangements for life insurance companies as at 1 July 2000.

PRE parameters apply in respect of transactions occurring pre 1 July 2000; and
POST parameters apply in respect of transactions occurring post 30 June 2000; unless specifically stated otherwise.

All parameters are effectively net of tax parameters where tax has been provided for at the rates applicable to the different classes of business.

Part I - Fixed Dollar Charge

Applicable for Unbundled Investment Business, Fixed Term/Rate Business and Income Stream Business

	PRE Charge	POST Charge
Ordinary	$50	$60
Superannuation	$80	$60
Tax Exempt	$90	$60

Note: **Dollar amounts are those applying to calendar year 1998. In subsequent years the dollar amount applying is that figure indexed in line with the Consumer Price Index (CPI) as published at 30 September of the immediately preceding year.**

Part II - Unbundled Investment Business

	PRE Charges	POST Charges
Regular Premium		
• For policies issued subsequent to the Date of Commencement		
Ordinary – All	First 1.5 years, 100% of premiums paid or payable	First 1.5 years, 100% of premiums paid or payable
Super'n – Participating	First 2 years, 100% of premiums paid or payable	First 2 years, 100% of premiums paid or payable
Super'n –	First 2 years, 100% of	First 1.5 years, 100% of

Non-participating	**premiums paid or payable**	**premiums paid or payable**

- **For policies issued prior to the Date of Commencement**

Ordinary & Superannuation	**The charge as prescribed for policies issued subsequent to the Date of Commencement** **LESS** **The allowance for other charges, as determined by the Actuary, implicit in the transitional amount referred to in paragraph 4.2.3.** **Subject to a minimum of zero.**	**The charge as prescribed for policies issued subsequent to the Date of Commencement** **LESS** **The allowance for other charges, as determined by the Actuary, implicit in the transitional amount referred to in paragraph 4.2.3.** **Subject to a minimum of zero.**
<u>Single Premium</u>	**<u>PRE</u>**	**<u>POST</u>**
Ordinary	**6.0% of premiums paid**	**6.5% of premiums paid**
Sup'n – Participating	**7.5% of premiums paid**	**7.5% of premiums paid**
Sup'n – Non-Participating	**7.5% of premiums paid**	**6.5% of premiums paid**
Tax Exempt	**9.0% of premiums paid**	**6.5% of premiums paid**

<u>Part III - Traditional (including Long Term Risk) Business</u>
<u>In Force Business at the Commencement of the Surrender Value Standard</u>

The following parameters apply:

a) the rate of interest in determining the paid-up value is 4.00% p.a.
b) the rate of interest in determining the surrender value is 4.50% p.a.
c) the rate of mortality is the A1924-29 Table
d) the allowance for cost of services is implicit through the use of a Sprague adjustment in the determination of the Net Premium, and a further adjustment factor. These adjustments are part of the prescribed methodology (see Attachment 2).

A reference to mortality in accordance with the "A1924-29 Table" is a reference to the ultimate table of mortality included in the tables published for the Institute of Actuaries and the Faculty of Actuaries under that short title.

Part IV - Traditional (including Long Term Risk) Business
New Business written subsequent to the Commencement of the Surrender Value Standard

	Interest Rate (Note 1)		Initial Expense Allowance (Note 4)	
Regular Premium	**PRE**	**POST**	**PRE**	**POST**
Ordinary	**61% of Gross Rate**	**70% of Gross Rate**	**1.5 year Sprague adjustment** **Factor = 88%**	**1.5 year Sprague adjustment** **Factor = 88%**
Superannuation Participating	**85% of (Gross Rate less 1%)**	**85% of (Gross Rate less 1%)**	**2 year Sprague adjustment** **Factor = 85%**	**2 year Sprague adjustment** **Factor = 85%**
Superannuation Non-Participating	**85% of Gross Rate**	**85% of Gross Rate**	**2 year Sprague adjustment** **Factor = 85%**	**1.5 year Sprague adjustment** **Factor = 88%**
	Where Gross Rate is 9.25%			
Single Premium	**PRE**	**POST**	**PRE**	**POST**
Ordinary	**61% of Gross Rate**	**70% of Gross Rate**	**Factor = 94%**	**Factor = 94%**
Superannuation Participating	**85% of (Gross Rate less 1%)**	**85% of (Gross Rate less 1%)**	**Factor = 92.5%**	**Factor = 92.5%**
Superannuation Non-Participating	**85% of Gross Rate**	**85% of Gross Rate**	**Factor = 92.5%**	**Factor = 94%**
Tax Exempt	**100% of Gross Rate**	**100% of Gross Rate**	**Factor = 91%**	**Factor = 94%**
	Where Gross Rate is (CB Rate + 3%)			

Notes:

1. **The Interest Rates shown are applicable to non-participating business, unless otherwise specified. The applicable interest rates for participating business are determined as for non-participating business, but using Gross Rate less 1.0%.**

2. **In all cases the mortality assumption is a Defined Table where the Defined Table is the table prescribed by the LIASB for this purpose from time to time. As at the commencement of the Standard, the Defined Table is IA 90-92. Where a product distinguishes gender and smoker status, the Actuary may appropriately reflect this in using the Defined Table.**

3. **A reference to CB Rate is a reference to the yield on 10 year Commonwealth Government Bonds at date of surrender.**

4. **Sprague adjustment and Factor refer to the respective items described in the formulae in Attachment 2 - Part II.**

Part V - Fixed Term/Rate and Income Stream Business

		PRE Interest Rate	POST Interest Rate
Fixed Term/Rate and Income Stream Business	**Ordinary:**	**61% Gross Rate**	**70% Gross Rate**
	Superannuation:	**85% Gross Rate**	**85% Gross Rate**
	Tax Exempt:	**100% Gross Rate**	**100% Gross Rate**
	Where Gross Rate is the greater of : • **4% plus the yield on the Commonwealth Government security with a term nearest the outstanding term of the policy at the date of surrender; and** • **the gross (of tax and expenses) yield implicit in the pricing of the policy at issue.**		

Notes:

1. **Where payments are indexed the Actuary should make an appropriate allowance for the rate of indexation.**

2. **The Interest Rates shown are applicable to non-participating business. The applicable interest rates for participating business are determined as for non-participating business, but using Gross Rate less 1.0%.**

3. **PRE and POST for Ordinary Fixed Term/Rate Business should be determined on the basis of date of commencement of the policy, or the date of commencement of the current term (if subject to a roll over mechanism).**

ATTACHMENT 2 - DETERMINATION OF MINIMUM SURRENDER VALUES AND PAID-UP VALUES FOR TRADITIONAL BUSINESS

<u>Part I - In Force Business at the Commencement of the Surrender Value Standard</u>

A. <u>Determination of Surrender Values</u>

1. The value on surrender is calculated as

PUV x A

where PUV is the minimum paid-up value at the date of surrender
A is the present value of $1 of paid-up value as at that date, according to the contingencies upon which it is payable.

and

the remaining term (for a policy issued for a term other than the whole term of life), at the date at which the surrender value is being calculated is (n - t)

the age of the person whose life is insured, at the date of calculation of the surrender value is determined as (x + t)

where n is the original term of the policy (in complete years and months)
t is the duration of the policy in completed years and months at that date
x is the age next birthday of the person whose life is insured, at the date of issue of the policy

B. <u>Determination of Minimum Paid-up Value</u>

1. The minimum paid-up policy, excluding Bonus Additions, is:

(a) For a policy which is not a policy for the whole term of life with premiums payable throughout life, but excluding policies covered by (c) below:

Factor x (t / n) x SA

where SA is the sum insured under the policy
t is the number, in complete years and months, of premiums paid
n is the number, in years and months, of premiums originally payable
Factor is 70% where three years premiums have been paid

80% where four years premiums have been paid
90% where five or more years premiums have been paid

(b) For a policy which is a policy for the whole term of life with premiums payable throughout life:

Factor x { (SA x A) - (NP x a) } x 1/A

where SA is the sum insured under the policy
NP is the net premium
A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable
a is the present value at the attained age of $1 p.a. of future net premiums according to the contingencies upon which they are payable

Sprague Adjustment is 1 year

Factor is 90% where the paid-up policy will not participate in future profits
80% otherwise

attained age means the attained age of the person whose life is insured and is determined as (x + t)

where x is the age next birthday of the person whose life is insured, at the date of issue of the policy
t is the duration of the policy in completed years and months as at the date the calculation is made.

(c) For a policy which is not a policy for the whole term of life with premiums payable throughout life, but which is a Long Term Risk Policy:

{(SA x A) - (NP x a) } x 1/A

where SA is the sum insured under the policy
NP is the net premium
A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable
a is the present value at the attained age of $1 p.a. of future net premiums according to the contingencies upon which they are payable

Sprague Adjustment is 1 year

attained age means the attained age of the person whose life is insured and is determined as (x + t)

where x is the age next birthday of the person whose life is insured, at the date of issue of the policy
t is the duration of the policy in completed years and months as at the date the calculation is made.

2. The amount of the Minimum Paid-up Value calculated under paragraph 1 of this Attachment shall be increased by the amount of any Bonus Additions.
Bonus Additions are all reversionary bonuses declared upon, and still attaching to, the original policy, excluding those reversionary bonuses declared between the date of issue of the policy and the earlier of :
(a) the date three years subsequent to the date of issue, and
(b) the date of the paid-up policy.

3. The net premium for the policy is such premium, exclusive of any addition for bonuses, office expenses and other charges, as is sufficient to provide for the risk incurred by the company in issuing the policy.
The age at issue is taken as age next birthday at the date of issue of the policy plus the number of years of Sprague adjustment. The term at issue (other than for a policy for the whole term of life) is the original term less the number of years of Sprague adjustment.

Part II - New Business written subsequent to the Commencement of the Surrender Value Standard

A. Determination of Surrender Values

1. The value on surrender is calculated as

Factor x { ([SA + B } x A) - (NP x a) }

where
SA is the sum insured under the policy
B is the bonus addition
NP is the net premium
A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable
a is the present value at the attained age of $1 p.a. of future net premiums according to the contingencies upon which they are payable

Factor is as prescribed in Attachment 1 - Part IV

Sprague Adjustment is:
- for regular premium business, as prescribed in Attachment 1 - Part IV;

- **for single premium business, not relevant.**

attained age means the attained age of the person whose life is insured and is determined as (x + t)

where x is the age next birthday of the person whose life is insured, at the date of issue of the policy

t is the duration of the policy in completed years and months as at the date the calculation is made.

2. The bonus addition for the policy is all reversionary bonuses declared upon, and still attaching to, the original policy, excluding those reversionary bonuses declared between the date of issue of the policy and the earlier of :

(a) the date three years subsequent to the date of issue, and

(b) the date of the calculation.

3. The net premium for the policy is such premium, exclusive of any addition for bonuses, office expenses and other charges, as is sufficient to provide for the risk incurred by the company in issuing the policy.
The age at issue is taken as age next birthday at the date of issue of the policy plus the number of years of Sprague adjustment, where relevant. The term at issue (other than for a policy for the whole term of life) is the original term less the number of years of Sprague adjustment, where relevant.

B. <u>Determination of Minimum Paid-up Value</u>

1. The paid-up value is calculated as:

MSV x 1/A

where MSV is the Minimum Surrender Value at the date of the paid-up policy

A is the present value of $1 of paid-up value as at that date, according to the contingencies upon which it is payable.

and the remaining term (for a policy issued for a term other than the whole term of life), at the date of the paid-up policy is (n - t)

the age of the person whose life is insured, at the date of the paid-up policy is determined as (x + t)

where n is the original term of the policy (in complete years and months)

t is the duration of the policy in completed years and months at that date

x is the age next birthday of the person whose life is insured, at the date of issue of the policy