Prudential Standard LPS 360

Termination Values, Minimum Surrender Values and Paid-up Values

Objective and key requirements of this Prudential Standard

This Prudential Standard sets out the requirements for determining termination values, minimum surrender values and minimum paid-up values. The key requirements of this Prudential Standard are:

- a life company must calculate the termination values of policies using the methods prescribed in this standard. Termination values cannot be less than the minimum termination values prescribed in this standard. Termination values are used in determining the capital base of a life company and its statutory funds (refer to Attachment H to *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*);

- section 207 of the Life Insurance Act requires a life company to pay a surrender value to a policy owner in some circumstances. This prudential standard specifies the minimum surrender value that must be paid; and

- section 209 of the Life Insurance Act requires a life company to vary a policy in some circumstances if the policy owner requests that no further premiums be paid. This prudential standard specifies the minimum amount of a paid-up policy.

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Attachments

Authority

1.   This Prudential Standard is made under paragraph 230A(1)(a) of the *Life Insurance Act 1995* (**the Act**).

Application

2.   This Prudential Standard applies to *all life companies including **friendly societies** (together referred* to as **life companies**) registered under the Act[1], except where expressly noted otherwise.

3.   This Prudential Standard only applies to the business of an Eligible Foreign Life Insurance Company (**EFLIC**) which is carried on through its Australian statutory funds but not otherwise.[2]

4.   This Prudential Standard applies to life companies from 1 January 2013 **(effective date).**

Interpretation

5.   Unless otherwise defined in this Prudential Standard, expressions in bold are defined in *Prudential Standard LPS 001 Definitions*.

6.   This Prudential 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.

7.   The date of commencement is defined to be:

(a)   in the case of a friendly society, 30 June 2002; and

(b)   in all other cases, 30 June 1998.

8.   A life company must, before issuing a policy, obtain the written approval of APRA for the method of calculating the minimum termination value, minimum surrender value and paid-up value if the policy does not belong to any of the types of business described in this Prudential Standard.

Part A – Termination values

Definition of termination value

9.   The **termination value** of a policy, before adjustments, is the greater of:

(a)   the amount that would be paid on the basis used in practice from time to time in the event of voluntary termination having regard for the amount

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[1]   Refer to subsection 21(1) of the Act.
[2]   Refer to section 16ZD of the Act.

the company is obliged to pay in accordance with the policy documentation and promotional material and the reasonable expectations of policy owners based on the company's current practice; and

(b) the **minimum termination value**.

10. The termination value of a policy must be adjusted, if necessary, so that it satisfies the following conditions:

(a) for an investment linked policy, the unit prices used for determining the termination value must be consistent with the fair values of the assets backing the policy;

(b) the termination value cannot be less than:

(i) the discounted present value of claims incurred prior to the termination date (whether reported or not and taking appropriate account of claims settlement costs); plus

(ii) the value of the unexpired risks or, where greater, contractual premium refunds;

(c) if the company's obligation to pay a termination value under the policy involves:

(i) deferred payments; or

(ii) payment by instalments over a period;

the termination value is the present value of those payments;

(d) if the company's obligation under a policy involves payment of an income stream (e.g. immediate annuities and disability claims in course of payment) or if the policy is fixed term/rate business or funeral bond business, the termination value cannot be less than the **Risk-free best estimate liability**.

11. The discount rate used for the purpose of subparagraphs 10(b) and 10(c) must be the **risk-free discount rate**. The **illiquidity premium** may be added to the risk-free discount rate if the illiquidity premium is used in determining the Risk-free best estimate liability.

Part B – Minimum termination values

Risk business (other than long term risk business)

12. The minimum termination value for risk business that is not **long term risk business** is zero.

Unbundled investment business

13. The minimum termination value for **funeral bond business** is zero.

14. The minimum termination value for other unbundled investment business is the sum of:

    (a) the **starting amount** at the date of commencement;

    (b) the premium(s) paid subsequent to the date of commencement; and

    (c) for business other than **education bond business**, the **normal investment earnings** credited in relation to the starting amount in (a) and premiums in (b);

    reduced by the sum of:

    (d) **normal ongoing charges** subsequent to the date of commencement; and

    (e) other charges at the level specified in Attachment 1 - Part II in relation to the premium(s) paid subsequent to the date of commencement; and

    (f) other charges at the fixed dollar level specified in Attachment 1 - Part I; and

    (g) for business other than education bond business, the normal investment earnings on the normal ongoing charges in (d) and other charges in (e) and (f).

15. A contractual increase in regular premiums must be treated as if it was a separate policy.

16. For regular premium policies in force at the date of commencement, the item in subparagraph 14(e) must be reduced, subject to a minimum of zero, to allow for other charges that have already been deducted from the starting amount.

Starting amount

17. For a policy issued after the date of commencement, the starting amount is zero.

18. For a friendly society, the starting amount for a policy in force at the date of commencement is the **normal contractual minimum value** at the date of commencement.

19. For a life insurer other than a friendly society, the starting amount for a policy in force at the date of commencement is the greater of:

    (a) the normal contractual minimum value at the date of commencement; and

    (b) the minimum surrender value at the date of commencement calculated in accordance with the then actuarial standard *Transitional Provisions for the Calculation of Paid-Up Values and Surrender Values*.

20. The normal contractual minimum value is the contractual minimum value adjusted as appropriate by the life company for the effect of any short term performance guarantees applicable at the date of commencement.

Normal investment earnings

21.   Normal investment earnings are the investment earnings actually credited to policies, net of tax but before deductions for charges and expenses.

22.   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.

Normal ongoing charges

23.   Normal ongoing charges are all expenses and charges (whether explicit or implicit) actually levied on the policy with the exception of those charges for the costs associated with the establishment or termination of the policy that are:

       (a)   explicit; or

       (b)   implicitly applied through differential ongoing charges based on duration or time of premium payment; or

       (c)   for a policy issued after the date of commencement that has level ongoing charges throughout the term of the policy plus an explicit charge on establishment or termination, the life company 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 life company 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.

Traditional business and long term risk business

24.   For **traditional business** and **long term risk business** issued by a friendly society prior to the date of commencement, the minimum termination value is zero.

25.   For traditional business and long term risk business issued by a life company that is not a friendly society prior to the date of commencement, the minimum termination value must be determined using the method set out in Attachment 2 - Part I, with prescribed parameters as set out in Attachment 1 - Part III.

26.   For traditional business and long term risk business issued on or after the date of commencement the minimum termination value must be determined either:

       (a)   using the method set out in Attachment 2 - Part I, with prescribed parameters as set out in Attachment 1 - Part III; or

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

27. The method used for determining the minimum termination value must not be changed after the policy is issued.

Immediate annuities and fixed term/rate business

Immediate life annuities

28. For immediate life annuities other than those covered by paragraphs 29 and 31, the minimum termination value is zero.

29. For immediate life annuities which provide for a return of the whole or a part of purchase price on the death of the annuitant (the death benefit), the minimum termination value is determined as the lesser of:

   (a) the value, at the rate prescribed in Attachment 1 - Part V, 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 annuitant; and

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

   (b) the face value of the death benefit.

30. For the purposes of paragraph 29, the expectation of life of the annuitant must be determined on the basis last adopted by the life company for the purposes of *Prudential Standard LPS 340 Valuation of Policy Liabilities*. If the annuity provides for more than one life, appropriate allowance must be made for the multiple lives and relevant policy conditions.

31. For immediate life annuities which provide a return of the balance of the purchase price on the death of the annuitant, the minimum termination value is determined as the value, at the rate prescribed in Attachment 1 - Part V, of the future payments due to and including the 'last date'.

32. For the purposes of paragraph 31, 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.

33. For immediate annuities payable for a fixed term and life thereafter, the minimum termination value during the fixed term is determined in accordance with paragraphs 35 and 36. After the fixed term, the provisions of paragraph 28 apply.

34. The minimum termination value may be reduced by the fixed dollar amount prescribed in Attachment 1 - Part I.

Immediate term certain annuities and fixed term/rate business

35.   For immediate term certain annuities and fixed term/rate business, the minimum termination value is determined as the value, at the rate prescribed in Attachment 1 - Part V, of the future guaranteed payments due to the end of the term.

36.   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).

37.   The minimum termination value may be reduced by the fixed dollar amount prescribed in Attachment 1 - Part I.

Part C - Minimum surrender values

38.   The minimum surrender value is the lowest value that must be paid to a policy owner if the policy owner requests the company to surrender the policy. The life company may be obliged to pay a higher surrender value according to the policy documentation and the promotional material for the policy.

Friendly societies

39.   There is no minimum surrender value for policies issued by friendly societies.

Life companies other than friendly societies

40.   There is no minimum surrender value for the following types of business:

   (a)   policies for which:

      (i)   the date of issue was prior to 1 July 1995;

      (ii)   no regulated minimum surrender value applied to the policy at the date of issue; and

      (iii)   the policy documentation and promotional material clearly discloses the non availability of a surrender entitlement.

   (b)   regular premium business in force for less than three years;

   (c)   overseas business;

   (d)   **wholesale business**; and

   (e)   **reinsurance business**.

41.   For policies that are not listed in paragraph 40, the minimum surrender value is the minimum termination value.

42.   The life company must be able to demonstrate that the amount paid to each policy owner who surrenders a policy is not less than the minimum surrender

value of the policy, less the amount of any debt owed to the company under, or secured by, the policy.

Part D - Minimum paid-up values

Friendly societies

43.   For a policy issued by a friendly society, the minimum paid-up value is zero.

Life companies other than friendly societies

44.   Where there is a debt secured by a policy, in determining the minimum paid-up value the life company 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.

Traditional business and long term risk business of life companies other than friendly societies

45.   For regular premium traditional business and long term risk 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.

46.   The amount of the minimum paid-up value must be determined either:

(a)   using the method set out in Attachment 2 - Part I, with prescribed parameters as set out in Attachment 1 - Part III; or;

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

47.   The method adopted (i.e. Part I or Part II) must be consistent with that used for the determination of the minimum termination value.

Unbundled investment business of life companies other than friendly societies

48.   For regular premium unbundled investment business the minimum paid-up value is determined as at the 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 termination value.

49.   Subsequent to that date, the minimum paid-up value may make appropriate allowance for ongoing charges, investment earnings and other policy transactions.

Adjustments and exclusions

50. APRA may, by notice in writing to a life company, adjust or exclude a specific requirement in this Prudential Standard in relation to that life company.

Determinations made under previous prudential standards

51. An exercise of APRA's discretion (such as an approval, waiver or direction) under a previous version of this Prudential Standard continues to have effect as though exercised pursuant to a corresponding power (if any) exercisable by APRA under this Prudential Standard. *Prudential Standard LPS 4.02 Minimum Surrender Values and Paid-up Values* may be regarded as a previous version of this Prudential Standard.

Attachment 1

Prescribed parameters

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

    (a)   PRE parameters apply in respect of transactions occurring pre 1 July 2000; and

    (b)   POST parameters apply in respect of transactions occurring post 30 June 2000;

    unless specifically stated otherwise.

2.   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

3.   Applicable for unbundled investment business, immediate annuities and fixed term/rate business:

	PRE charge	**POST charge**
Ordinary	$75	$90
Superannuation	$120	$90
Tax exempt	$135	$90

Note: Dollar amounts are those applying to calendar year 2012. In earlier or 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		
Ordinary – all	First 1.5 years, 100% of premiums paid or payable	First 1.5 years, 100% of premiums paid or payable
Superannuation – participating	First 2 years, 100% of premiums paid or payable	First 2 years, 100% of premiums paid or payable
Superannuation – non-participating	First 2 years, 100% of premiums paid or payable	First 1.5 years, 100% of premiums paid or payable

Single premium	PRE	POST
Ordinary	6.0% of premiums paid	6.5% of premiums paid
Superannuation – participating	7.5% of premiums paid	7.5% of premiums paid
Superannuation – non-participating	7.5% of premiums paid	6.5% of premiums paid
Tax exempt	9.0% of premiums paid	6.5% of premiums paid

Part III - traditional business and long term risk business

4.   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 termination value is 4.50% p.a.;

   (c)   the rate of mortality is the 'A1924-29 Table'; and

   (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).

5.   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 and Faculty of Actuaries under that short title.

Part IV – alternative basis for traditional business and long term risk business issued after the date of commencement

	Interest rate (refer note 1)		Initial expense allowance (refer note 4)	
Regular premium				
	PRE	**POST**	**PRE**	**POST**
Ordinary	61% of gross rate	70% of gross rate	1.5 year Sprague adjustment	1.5 year Sprague adjustment
			Factor = 88%	Factor = 88%
Superannuation participating	85% of (gross rate less 1%)	85% of (gross rate less 1%)	2 year Sprague adjustment	2 year Sprague adjustment
			Factor = 85%	Factor = 85%
Superannuation non-participating	85% of gross rate	85% of gross rate	2 year Sprague adjustment	1.5 year Sprague adjustment
			Factor = 85%	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 IA 90-92. Where a product distinguishes gender and smoker status, the life company 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 calculation.

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

Part V – immediate annuities and fixed term/rate business

		PRE interest rate	POST interest rate
Immediate annuities and fixed term/rate 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 calculation; and • the gross (of tax and expenses) yield implicit in the pricing of the policy at issue.		

Notes:

1.   Where payments are indexed the life company 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 termination values and paid-up values for traditional business and long-term risk business

Refer to Attachment 3 for variations to the requirements for specific types of traditional business.

Part I - In force business at the date of commencement

A. Minimum termination value

1.   The minimum termination value is calculated as:

PUV x A

where:

(a)   PUV is the minimum paid-up value at the date of calculation;

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

B. Minimum paid-up value

2.   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:

(i)   SA is the sum insured under the policy;

(ii)   t is the number, in complete years and months, of premiums paid;

(iii)   Factor is 70% where three years premiums have been paid, 80% where four years premiums have been paid and 90% where five or more years premiums have been paid; and

(iv)   n is the number, in years and months, of premiums originally payable;

(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:

(i)   SA is the sum insured under the policy;

(ii)   NP   is the net premium;

(iii)   A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable;

(iv)   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;

(v)   Sprague Adjustment is 1 year;

(vi)   Factor is 90% where the paid-up policy will not participate in future profits and 80% otherwise; and

(vii)   attained age means the age next birthday of the life insured at the date of issue of the policy plus the duration of the policy in completed years and months.

(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:

(i)   SA   is the sum insured under the policy;

(ii)   NP   is the net premium;

(iii)   A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable;

(iv)   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;

(v)   Sprague Adjustment is 1 year; and

(vi)   attained age means the age next birthday of the life insured at the date of issue of the policy plus the duration of the policy in completed years and months.

3.   The amount of the minimum paid-up value calculated under paragraph 2 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.

4. 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 date of commencement

A. <u>Minimum termination value</u>

5. The minimum termination value is calculated as:

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

where:

a) SA is the sum insured under the policy;

b) B is the bonus addition;

c) NP is the net premium;

d) A is the present value as at the attained age of $1 of sum insured according to the contingencies upon which it is payable;

e) 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;

f) Factor is as prescribed in Attachment 1 - Part IV;

g) Sprague adjustment is:

   (i)   for regular premium business, as prescribed in Attachment 1 - Part IV; and

   (ii) for single premium business, not relevant;

h) attained age means the age next birthday of the life insured at the date of issue of the policy plus the duration of the policy in completed years and months.

6. 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.

7. 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. Minimum paid-up value

8.   The paid-up value is calculated as:

MTV x 1/A

where:

a)   MTV is the minimum termination value at the date of the paid-up policy; and

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

Attachment 3

Calculation of minimum termination values and paid up values for certain types of traditional policies (the specified policies)

These calculations assume that minimum termination values are calculated according to Part I of Attachment 2. If minimum termination value are calculated according to Part II of Attachment 2, appropriate changes must be made to the calculations specified in this attachment.

Item	Class of life policy	Description of policy within the class	Calculations
1	Family income	A policy under which: (a) an amount is payable (***the basic sum insured***) on the death of the life insured; and (b) an additional amount of life insurance benefits (***the additional benefits***) is payable if the death of the life insured occurs within the term specified in the policy.	1.1 The minimum paid-up value is: $$PUVB + \left(PUVA \times ADJ \right)$$ where: ***PUVB*** is the amount of the paid-up policy in respect of the basic sum insured. ***PUVA*** is the amount of the paid-up policy in respect of the additional benefits calculated according to Attachments 1 and 2 of this Prudential Standard, as if, for the purposes of those attachments, the additional benefits were a policy that will not participate in future profits. ***ADJ*** is calculated according to the following formula: $$\frac{AA}{AB}$$ where ***AA*** is the present value, as at the attained age, of \$1 of sum insured according to the contingencies upon which the additional benefits are payable. ***AB*** is the present value, as at the attained age, of \$1 of sum insured according to the contingencies upon which the basic sum insured is payable. 1.2 The minimum termination value is calculated according to Attachment 2.

Item	Class of life policy	Description of policy within the class	Calculations
2	Additional benefits	A policy under which an amount of additional life insurance benefits (*the additional benefits*) are payable: (a) 　or accidental death; or (b) 　or death by an illness specified in the policy; or (c) 　n an event other than survival or death.	2.1 In calculating the minimum paid-up value: (a)　the additional benefits are taken not to be part of the calculation; and (b)　the paid-up policy is taken not to provide any part of an additional benefit. 2.2 The minimum termination value is calculated according to Attachment 2.
3	Option	A policy (*the original policy*) under which the contract of insurance may be varied at the option of the policy owner: (a)　on a date specified in the policy; or (b)　on the happening of an event specified in the policy.	3.1 In calculating the minimum paid-up value and minimum termination value before the option is exercised, the option is ignored.
4	Altered	A policy under which the contract of insurance (*the original contract*) is varied, at the request of the policy owner, by a change to: (a)　the date on which the sum insured is payable; or (b)　the term during which premiums are payable.	4.1　The minimum paid-up value is: $$APUV + PBPUV$$ where: *APUV* is the amount of the adjusted paid-up policy at the date of variation, being an amount calculated as follows: $$PUV \times \frac{AO}{AA}$$ where: *PUV* is the value of the paid-up policy under the original contract, calculated according to Attachments 1 and 2 of this Prudential Standard, as at the day before the date of variation. *AO* is the present value, as at the attained age, of $1 of sum insured according to the contingencies upon which the sum insured under the original contract was payable. *AA* is the present value, as at the

Item	Class of life policy	Description of policy within the class	Calculations
			attained age, of \$1 of sum insured according to the contingencies upon which the sum insured under the original contract, as varied, on the day after the date of variation, is payable.

PBPUV is the amount of the paid-up policy, calculated as if:

(a) the policy came into effect on the date of variation; and

(b) the sum insured under the policy is the premium bearing sum insured (*PBSI*) calculated as the total sum insured under the original contract, as varied, on the day after the date of variation, less *APUV*; and

(c) *PBSI* is payable on the same contingencies upon which the total sum insured under the original contract, as varied, on the day after the date of variation, is payable.

4.2   For the purposes only of:

(a) subsection 209 (1) of the Act; and

(b) the definition of *Factor* in Attachments 1 and 2 of this Prudential Standard, the period for which premiums have been paid under the policy is taken to have started on the date of the original contract.

4.3   For the purposes of subitem 4.1, *the date of variation* means the date on which the first premium is payable under the original contract, as varied.

4.4   The minimum termination value is calculated according to Attachment 2. |

Item	Class of life policy	Description of policy within the class	Calculations
5	Increased	A policy under which the contract of insurance (***the original contract***) is varied, at the request of the policy owner, by increasing: (a) both the amount of the sum insured and the amount of each premium; or (b) if additional amounts of premium are paid — the amount of the sum insured.	5.1 The minimum paid-up value is: $$PUV + INCPUV$$ where: ***PUV*** is the minimum paid-up value for the original contract, calculated according to Attachments 1 and 2 of this Prudential Standard. ***INCPUV*** is the total of the minimum paid-up values, in respect of each increase of the original contract, calculated according to Attachments 1 and 2 of this Prudential Standard, as if, for the purposes of those Attachments, each increase was a policy: (a) that was effected on the date of the increase; and (b) under which the sum insured is the amount of the increase; and (c) under which the period for which premiums have been paid started on the date of the increase. 5.2 The minimum termination value of the policy is: $$SV + INCSV$$ where: ***SV*** is the minimum termination value of the original contract, calculated according to Attachments 1 and 2 of this Prudential Standard. ***INCSV*** is the total of the minimum termination values, in respect of each increase of the original contract, calculated according to Attachments 1 and 2 of this Prudential Standard, as if, for the purposes of those Attachments, each increase was a policy: (a) that was effected on the date of the increase; and (b) under which the sum insured is the amount of the increase; and

Item	Class of life policy	Description of policy within the class	Calculations
			(c) under which the period for which premiums have been paid started on the date of the increase.
6	Paid-up	A paid-up policy under section 209 of the Act.	6.1 The minimum paid-up value of the policy is the actual amount of the paid-up policy.
			6.2 The minimum termination value is calculated according to Attachment 2.