Republic of the Philippines
**SECURITIES AND EXCHANGE COMMISSION**
SEC Building, EDSA, Greenhills
Mandaluyong City

**SEC MEMORANDUM CIRCULAR NO: 6**
***Series of 2003***

**TO : ALL CONCERNED**

**SUBJECT : STANDARDS FOR VALUATION OF ACTUARIAL RESERVE LIABILITIES FOR PRE-NEED PLANS**

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I. GENERAL

(1) Actuarial liability reserves must be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.

(2) Where insurance coverage is provided in the plan contract, insurance premium reserves must be set up as a separate liability account.

(3) The actuarial reserve liability must be determined by using a prospective method and in accordance with the Guidelines and Standards of the Actuarial Society of the Philippines (ASP).

(4) Actuarial reserve valuation methods must be consistent with any allowed accounting adjustments for deferred expenses. The net level contribution method of prospective valuation for both pre-need benefits reserve and insurance premium reserve shall be used, when there is deferment of expenses. Only first year commissions, overrides and bonuses may be deferred. Administrative and other marketing expenses shall not qualify for deferral. The period of deferment shall not exceed the installment payment period and shall be in accordance with the SEC New Rules on the Registration and Sale of Pre-Need Plans under Section 16 of the Securities Regulation Code which took effect 21 September 2001.

(5) The actuarial reserve liability for a contract that has defaulted in payment of installments of the price, but which may still be reinstated, shall not be less than its reserve minus the uncollected contributions to reserve up to the date of valuation, multiplied by a validated reinstatement factor as determined by the actuary, provided the uncollected contributions to reserve is not reflected as asset.

II. ACTUARIAL ASSUMPTIONS

(1) The interest rate assumption in reserve valuation should be reflective of expenses and taxes incurred on investments, but the rate shall in no case exceed 80% of the average interest rate for the longest term Philippine

government security traded during the previous three months. If the experienced net yield rate of the trust fund is higher than the set maximum, the actuary must show conclusive proof of the actual net yield and its attainability during the remaining period of the contracts whose reserves are being valued, before assuming such experienced net yield.

(2) Rates of surrender, cancellation, utilization, and inflation, when applied, must consider the actual experience of the company in the last three (3) years, or the industry, in the absence of a reliable company experience.

(3) In determining actuarial reserve liabilities of fully paid plans, no decrement rates other than utilization rates for the contingent principal benefits may be used. The actuary shall submit to the SEC for approval the necessary justification for any exception made to this rule.

(4) The actuary shall validate every year the actuarial assumptions used in the reserve valuation and shall include in the actuarial certification a statement of the validation procedure.

This Circular supersedes the previously issued Memorandum Circular No. 6 Series of 2002 and shall henceforth take effect immediately.

EDSA, City of Mandaluyong, Metro-Manila, Philippines.

April 10, 2003.

Lilia R. Bautista

**LILIA R. BAUTISTA**
**Chairperson**