SEC Memorandum Circular No. 6

Series of 2002

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

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 benefits are purchased from an insurer, insurance premium reserves for the cost of purchasing such benefits after the installment payment period must also be set up as additional liabilities of the company.
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. If deferment is allowed, only first year commissions, overrides and bonuses may be deferred, and the period of deferment shall not exceed the installment payment period expressed in years, minus one year. The net level method of prospective valuation for both pre-need benefits reserve and insurance premium reserve shall be used when there is deferment of expenses.
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 installments up to the date of valuation, provided the uncollected installment 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 securities traded during the previous three months.
2. Rates of surrender, cancellation, utilization, and inflation, when applied, must reflect 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.
4. The actuary shall validate every year, the actuarial assumptions used in reserve valuation.

This Circular shall take effect immediately.

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

June 27, 2002.

(Original Signed)

LILIA R. BAUTISTA
Chairperson