Society of Actuaries in Ireland

ACTUARIAL STANDARD OF PRACTICE LA-8

LIFE ASSURANCE PRODUCT INFORMATION

Classification

Mandatory

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE CODE OF PROFESSIONAL CONDUCT AND THAT ACTUARIAL STANDARDS OF PRACTICE IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

Life Assurance (Provision of Information) Regulations, 2001 as amended

Application

The Head of Actuarial Function or any actuary called upon to advise a life assurance company on the provision of product information pursuant to the Information Regulations or otherwise. *The assumptions set out in this ASP are for the above purpose. If the assumptions are used for other purposes, members must exercise professional judgement as to whether they are suitable for those purposes.*

This ASP is in three Parts. Part I applies to all policies. Part II applies to policies where the totality of charges is explicit. Part III applies to with-profits policies, both conventional and accumulating, and to all other policies where some or all of the charges may not be explicit.

Should regulations be introduced requiring the provision of product information for other types of financial products, the requirements contained in this ASP may be applicable to actuaries asked to provide advice.

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1.0	14.02.2001	1.10	01.03.2012
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1.2	01.01.2002	1.12	01.01.2015
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1.7	01.07.2007	1.17	01.05.2023 *(early adoption encouraged)*
1.8	01.07.2009		
1.9	01.11.2010		

Definitions

"the Actuary" means the Head of Actuarial Function or any actuary called upon to advise a life assurance company on the provision of product information pursuant to the Information Regulations or otherwise

"ASP" means Actuarial Standard of Practice

"the Code" means the Consumer Protection Code issued by the Central Bank of Ireland

"the Company" means the life assurance company which the Actuary is advising on the provision of product information pursuant to the Information Regulations

"compound annual rate" has the meaning assigned in the Code

"the Domestic Actuarial Regime" means Domestic Actuarial Regime and Related Governance Requirements under Solvency II issued by the Central Bank of Ireland.

"the Head of Actuarial Function" means the actuary approved by the Central Bank of Ireland to act in the Pre-Approval Controlled Function of Head of Actuarial Function (PCF 48) for the Company.

"the Information Regulations" means the Life Assurance (Provision of Information) Regulations, 2001 as amended.

"should normally" indicates that members of the Society to whom this ASP applies must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members or the public might reasonably expect of a member

"the Society" means the Society of Actuaries in Ireland

"Tracker bond" has the meaning assigned in the Code

PART I: GUIDANCE APPLICABLE TO ALL POLICIES

1 Introduction

1.1 This ASP is issued pursuant to the Information Regulations, and, in particular, to Regulation 8(1) of the Information Regulations, which stipulates that:

"Illustrative tables of projected benefits, expenses and charges, intermediary remuneration and sales remuneration shall be prepared by the insurer in accordance with -

(a) Schedule 2,

(b) the advice of the actuary, and

(c) *any guidance notes issued by the Society of Actuaries in Ireland for those purposes."*

1.2 "The actuary" is defined, for the purposes of the Information Regulations, as:

"(a) where an insurance undertaking is required to have an actuary, the person appointed to act as actuary to the insurance undertaking, or

(b) in any other case, an actuary, being a Fellow Member of the Society of Actuaries in Ireland, nominated by the insurance undertaking,

to carry out any function relating to the business of the insurance undertaking which is required by the Insurance Acts to be undertaken by an actuary."

The requirement for the Head of Actuarial Function to carry out the duties under the Information Regulations is outlined in the Domestic Actuarial Regime, which sets out a number of additional responsibilities for the Head of Actuarial Function in direct life undertakings, including:

"Monitoring the undertaking's compliance with requirements relating to disclosure of information to domestic policyholders"

1.3 The Information Regulations require that a certificate furnished by the Actuary to the Company and a declaration furnished by the Company shall both be submitted to the Central Bank of Ireland within one month of the end of each financial year.

The Actuary's certificate is required to state *"if such be the case, that the advice given by the actuary and any guidance notes issued by the Society of Actuaries in Ireland have been complied with by the insurer"* and the Actuary is required to include in the certificate *"such qualifications, amplifications or explanations in relation to that advice as the actuary considers appropriate"*.

The Company's declaration is required to state *"if such be the case, that all information requested by the actuary pursuant to his or her functions under these Regulations has been provided to the actuary and is accurate"* and the Company is required to include in the declaration *"such qualifications, amplifications or explanations as the insurer considers appropriate"*.

1.4 Regulation 7(6) of the Information Regulations provides that:

"(a) Deviations from the form of the illustrative tables set out in paragraph A(3) and (4) of Schedule 1 shall be subject to the advice of the actuary.

(b) When giving advice pursuant to subparagraph (a), the actuary shall have regard to any guidance notes issued by the Society of Actuaries in Ireland for that purpose."

1.5 While the benefits, expenses and charges which are illustrated in the provision of product information are ultimately the responsibility of the Company, the

Information Regulations require a Company to have regard to any guidance notes issued by the Society, as well as requiring consultation with the Actuary.

This ASP constitutes the guidance relating to illustrations of benefits, expenses and charges issued by the Society referred to in the Information Regulations.

This ASP also applies to any Actuary providing advice to a Company pursuant to the Information Regulations.

1.6 The Central Bank of Ireland has responsibility in law for the implementation of the Information Regulations. The Actuary must therefore, subject to the request or consent of the Company, be prepared to explain and justify to the Central Bank of Ireland the advice given by the Actuary to the Company which underlies illustrations of projected benefits, expenses and charges.

2 Scope of ASP

2.1 This ASP sets out the principles in accordance with which the various parameters underlying the calculation of the figures required to be provided in the Illustrative Table of Projected Benefits and Charges set out in the Information Regulations must be determined.

2.2 The ASP has regard to the two main objectives of the provision of product information, which are:

(a) firstly, to provide policyholders with illustrations of projected benefits, expenses and charges which are fair, clear and not misleading; and

(b) secondly, and subject to the first objective, to provide policyholders with illustrations of projected benefits, expenses and charges which facilitate comparisons of products between different companies.

2.3 Regulation 9(1) of the Information Regulations requires, in the case of policies issued on or after the coming into operation of the Information Regulations and acquiring a surrender or maturity value, that an annual written statement, indicating the current premium payable, the current surrender or maturity value and such further information as the Company considers appropriate, shall be provided to the policyholder by the Company. Where such an annual written statement includes illustrations of projected benefits, expenses and charges, or where the Company otherwise provides the policyholder with illustrations of projected benefits, expenses and charges while the policy is in force, such illustrations must be determined in accordance with the principles and assumptions set out in this ASP.

2.4 The Information Regulations do not require that annual written statements be provided in the case of policies issued before the coming into operation of the Information Regulations. Where the Company provides a policyholder in this category with illustrations of projected benefits, expenses and charges while the policy is in force, such illustrations must be determined in accordance with the principles and assumptions set out in this ASP.

2.5 Where illustrations of projected benefits, expenses and charges are provided in a situation where Regulation 6(1) of the Information Regulations does not apply, such illustrations must also be determined in accordance with the principles and assumptions set out in this ASP and any obligations that apply to a Head of Actuarial Function under this ASP shall apply equally to any actuary advising a Company on the provision of such illustrations.

3 Constructing the Illustrative Table of Projected Benefits and Charges

3.1 The projected policy values shown in column E must represent the amounts it is projected will be received by those policyholders who surrender or mature.

3.2 The Illustrative Table of Projected Benefits and Charges must be interpreted as being an arithmetic demonstration of how the projected policy values are derived, so that the total amount of premiums paid to date plus projected investment growth to date less projected total deductions to cover expenses and charges to date less projected total deductions for the cost of protection benefits to date will equal the projected policy value.

3.3 The Illustrative Table of Projected Benefits and Charges must be constructed allowing for the actual (e.g. monthly) timing of premium receipts, investment growth, deductions to cover expenses, charges, stamp duty or pension levy and deductions for the cost of protection benefits. The rate of investment return used in the primary illustration for each month of the projection period must be determined in accordance with paragraph 6.2, paragraph 6.3 and, where applicable, paragraph 6.4.

3.4 If the projected investment growth for any month is negative, the projected deductions to cover expenses and charges for the month must be increased by the absolute amount of the projected investment growth for the month, and the projected investment growth for the month must then be made equal to zero.

3.5 The five columns of the Illustrative Table of Projected Benefits and Charges must be disclosed in all circumstances other than in the case of a contract providing no protection benefits, where it is permissible not to include Column D of the Illustrative Table of Projected Benefits and Charges.

3.6 It may be that further columns are required to ensure that the Illustrative Table of Projected Benefits and Charges is fair, clear and not misleading. Where this is so, the Actuary must advise the Company to extend the Illustrative Table of Projected Benefits and Charges. An example of this would be a policy providing periodic benefits, where a column for benefits received to date would be required.

3.7 In the case of policies where there is a liability to tax pursuant to Section 594, Section 730F, Section 730J or Section 730K of the Taxes Consolidation Act 1997, whether by deduction of tax by the Company from the policy benefits or payment of tax by the policyholder to the Revenue Commissioners, the heading of Column E must be changed to *"Projected policy value after*

payment of taxation". This column must show policy values after deduction or payment, as appropriate, of the total tax paid or arising to date under Section 594, Section 730F, Section 730J or Section 730K of the Taxes Consolidation Act 1997. An additional column headed *"Taxation to date"* must be inserted immediately before Column E, showing the total tax paid or arising to date under Section 594, Section 730F, Section 730J or Section 730K of the Taxes Consolidation Act 1997.

Where, in the case of any such policy, periodic benefits are payable to the policyholder, a column showing after tax periodic benefit payments must be included between the column headed *"Taxation to date"* and the column of projected policy values after payment of taxation.

3.8 Where a stamp duty or pension levy is applicable to the market value of assets under management in a pension fund, it must be reflected in the Illustrative Table of Projected Benefits and Charges. This must be included within either column B or column C or within an additional column headed "Taxation to date" inserted immediately before Column E, as outlined in paragraph 3.7. An explanatory note, linked clearly to the appropriate column, must be provided below the table.

3.9 The stamp duty or pension levy of paragraph 3.8 must be reflected in the Illustrative Table of Projected Benefits and Charges from the date of the illustration until the end of the period for which the levy must be applied. Where an illustrative table is provided on a generic basis within a brochure or marketing material, a note must be provided explaining that the illustration allows for stamp duty or pension levy deductions from the date of publication (which must be stated) until the end of the period for which the levy must be applied (which must also be stated).

3.10 If the Actuary believes that information in addition to that provided in the Illustrative Table of Projected Benefits and Charges is needed to ensure that the provision of product information is fair, clear and not misleading, then the Actuary must advise the Company as to what additional information must be disclosed. For this purpose, the Illustrative Table of Projected Benefits and Charges and any explanatory notes attaching thereto must be modified, amended or augmented as necessary.

An example of such a product would be an investment bond under which the maturity proceeds vary in a significantly discontinuous way with the performance of stock market indices - in this case, the Actuary must advise the Company on the information needed to be provided to ensure that the policyholder is properly informed of the different discrete events and their likelihoods.

3.11 The Information Regulations provide that the values given in the Illustrative Table of Projected Benefits and Charges to be provided before a client signs a proposal or an application form may be shown on a generic basis where it is not practicable to show the said values on a client-specific basis, subject to the

Company providing the client with an Illustrative Table of Projected Benefits and Charges specific to the client when issuing the policy related to the proposal submitted by the client, other than in the case of industrial assurance policies. Where Illustrative Tables of Projected Benefits and Charges are prepared on a generic basis, the guiding principle that policyholders be provided with illustrations of projected benefits, expenses and charges which are fair, clear and not misleading also applies. The generic Illustrative Table of Projected Benefits and Charges used must be typical in relation to product parameters, such as age, policy term, sum assured and premium. Where more than one remuneration structure applies to the product in question, the charging structure corresponding to the highest such remuneration structure must be used in constructing the generic Illustrative Table of Projected Benefits and Charges.

4 Durations for which figures are to be given

4.1 For open-ended contracts the Actuary may deem it appropriate to finish the Illustrative Table of Projected Benefits and Charges at year 20.

4.2 For whole-of-life protection contracts, or protection contracts which have been marketed with a whole of life aspect, the final row of the Illustrative Table of Projected Benefits and Charges must be for the duration for which it is projected the contract can be maintained by the premium shown. The term "Maturity" must be replaced by the duration in force of the contract. However, if it is projected that the contract can be maintained beyond age 100, the final row of the Illustrative Table of Projected Benefits and Charges need not be shown.

4.3 Where the figures between quinquennial durations in force do not grow at a steady rate, the values for all the intervening years must be given. It is a matter for the Actuary's professional judgement to determine whether figures between durations are growing at a steady rate. However, if, for any policy anniversary, the projected total deductions to date to cover expenses is less than the corresponding figure for one year earlier, the figures between the two durations must not be considered to be growing at a steady rate.

4.4 Where the figures between the latest policy anniversary occurring five years or more before the maturity date and the maturity date do not grow at a steady rate, the values for all the policy anniversaries occurring on or after the latest policy anniversary occurring five years or more before the maturity date must be given.

4.5 For pension contracts, the values for the policy anniversary before the maturity date must be given, and the investment term assumed and the number of premiums assumed to be paid must be stated below the Illustrative Table of Projected Benefits and Charges.

5 Additional information and/or adjusted methodology may be required

5.1 It is possible that the prescribed illustration may give a misleading impression of the Company's charging basis. An extreme example of this would be where the Company has a charging structure which deducts, say, 25% of the investment return in excess of the prescribed maximum growth rate. A more likely example would be fund management charges which vary in accordance with investment performance.

5.2 Another example is certain derivative-based products where the benefit profile is not a smooth function of underlying investment returns and the illustrated scenario of a constant deterministic and conservative investment return could be totally misleading as to the potential benefits and thus the charges under such products.

5.3 Undoubtedly these examples are not exhaustive. The Actuary must in such circumstances make such adjustments to the calculations as he or she deems to be appropriate to present a fairer illustration of the expected benefits and level of deductions rather than to present a precise reflection of the prescribed scenario. In the event of such adjustments being made, the Actuary must give a clear explanation of how and why a departure has been made from the prescribed formula.

6 Assumed investment return

6.1 The Information Regulations prescribe that the maximum rate of investment return to be assumed in illustrating projected future benefits under the policy is 6% per annum before deduction of taxation. For the purposes of this ASP, the maximum rate of investment return is 5.75% per annum before the deduction of stamp duty or pension levy.

6.2 The rate of investment return, before deduction of all anticipated charges related to the contract, used in constructing the Illustrative Table of Projected Benefits and Charges shall be determined having regard to the asset mix relating to the contract, on the following basis:

(i) the maximum gross investment return for equities and property will be 5.75% per annum;

(ii) the maximum gross investment return for fixed interest securities will be 2.5% per annum;

(iii) the maximum gross investment return for cash will be 0.25% per annum;

(iv) to determine the maximum gross investment return for other asset classes, hybrid instruments or derivatives, the Actuary must "look through" to the underlying assets of the fund and the current and expected long-term asset mix as outlined under paragraph 6.3.

For this purpose, in the case of geared funds, borrowings must be treated as negative holdings of cash. The rate of investment return applied to borrowings must be the expected rate of interest payable on such borrowings, subject to a minimum of the gross investment return for fixed interest securities.

The gross rate of investment return so determined shall be subject to an upper limit of 5.75% per annum.

For long-dated projections, the use of the maximum rates above would normally be appropriate as expected long-term returns on asset classes may differ from current yields. Using the maximum rates may also support the objective of comparability set out in paragraph 2.2(b). However, for projections of less than five years, it is important to have regard to the current level of prevailing yields on the underlying assets.

It is important that the Actuary documents the reasons for his or her assumptions regarding the rate of investment return.

6.3 When determining the rate of investment return under paragraph 6.2 (iv), the Actuary must understand the economic effect of any derivatives and gearing on the future performance of the fund. He or she must ensure that the assumed rate of investment return on the fund is consistent with:

(i) the past volatility and/or expected volatility of the fund (whichever is more relevant);

(ii) the published asset mix information provided to policyholders;

(iii) the published risk rating of the fund; and

(iv) any other relevant information (such as target value at risk of the fund manager).

The Actuary shall further ensure that, in the calculation of the assumed rate of investment return on the fund, the assumed returns on underlying assets do not exceed the maximum rates specified in paragraphs 6.2 (i), (ii) and (iii), as relevant.

Where the Actuary has insufficient information to determine the rate of investment return for a particular asset or fund, the gross investment return assumed shall be subject to a maximum of 0.25% per annum.

6.4 Where assets and/or future premiums are invested in accordance with an investment strategy under which the allocation of premiums and/or the accumulated assets to asset classes is expected to change in the future, the assumed investment return for a month must be based on the expected asset mix for that month. The (monthly equivalent of the) upper limit specified in paragraph 6.2 applies separately to each month of the projection period.

6.5 The amount of investment return for each month of the projection period must be determined by applying the monthly equivalent of the rate of investment return determined in accordance with paragraph 6.2, paragraph 6.3 and, where applicable, paragraph 6.4 to the fund value. In the case of geared funds, the fund value for this purpose is the gross value of the assets of the fund less any borrowings of the fund.

6.6 The Information Regulations permit the giving of a second Illustrative Table of Projected Benefits and Charges to a client, provided the basis of calculation of that second illustration is specified.

6.7 A Company may provide the client with a second Illustrative Table of Projected Benefits and Charges at a rate of investment return which is equal to, higher than or lower than the rate of investment return used in the primary illustration. Where the Company decides to provide the client with a second Illustrative Table of Projected Benefits and Charges at a rate of investment return which is higher than the rate of investment return used in the primary illustration, the rate of investment return used in constructing the second Illustrative Table of Projected Benefits and Charges must exceed that used in the primary illustration by 2% per annum before deduction of taxation.

6.8 Where the Company provides illustrations of projected benefits, expenses and charges to a policyholder in respect of a life assurance policy which is subject to taxation of investment return or in respect of an industrial assurance policy, the rate or rates of investment return used in constructing such illustrations must be reduced to reflect the effect of taxation at then prevailing rates on such rate or rates of investment return.

6.9 Where the Actuary has doubts about the rate or rates of investment return to assume in specific situations, the Actuary should normally consult the Society.

7 Policies which do not provide surrender or transfer values

7.1 On some products, both single premium and regular premium, it may not be permissible to obtain a surrender value or transfer value, because of legal/revenue constraints or otherwise.

7.2 In a single premium situation, the Actuary must present a calculation of the theoretical "surrender" value which does not mislead as to the level and timing of deductions.

7.3 In a regular premium situation, where the policyholder may voluntarily discontinue premium payments and make the policy "paid up" but may not take a surrender value, the Actuary must take special care not to overstate the value of the paid up benefits. Where the restriction on taking cash benefits on early discontinuance is imposed by external factors, such as those prescribed by legal or revenue authorities, then the Actuary may deem it appropriate to illustrate the surrender value that the Company would be prepared to pay in

the absence of such constraints. Any practice in regard to similar contracts where the constraints do not apply would be relevant in this regard.

7.4 In any event, where the "surrender" values illustrated in the Illustrative Table of Projected Benefits and Charges are not actually available in cash but are in paid-up form, this fact must be made clear in a note to the Illustrative Table of Projected Benefits and Charges.

8 Deductions not known at point of sale

8.1 For some products, especially those where the benefits are guaranteed or the basis for determining benefits is guaranteed, the deductions that will be made by the Company to cover expenses and profits are not known precisely at the point of sale but may, for example, become known only when the Company has put the necessary matching investments in place.

8.2 For other products, e.g. those where the charge takes the form of all or a proportion of the investment income from a portfolio of investment securities or of the dividend yield on an index of security prices or other measure of capital values, the form of the charge will be explicit but its level will not be known precisely at the point of sale but may, for example, become known only as actual experience emerges.

8.3 In these circumstances, the Actuary must illustrate best estimates of the anticipated deductions. The pricing of the product will have been based on a targeted level of deductions and this may provide a suitable estimate.

8.4 It would not be necessary to follow up with an accurate illustration once the true charges accruing to the Company are known (which may be some time after the policy has been issued) as any variation from the targeted deductions is in the nature of investment return and should have an equal chance of being positive or negative.

9 Reduction in yield

9.1 The Reduction in Yield must be calculated as a percentage to not less than one decimal place.

The Reduction in Yield must be calculated only for the primary Illustrative Table of Projected Benefits and Charges.

9.2 The Reduction in Yield must be calculated as follows.

(a) The projected policy value derived by accumulating, at the rate of investment return underlying, and for the full duration of, the Illustrative Table of Projected Benefits and Charges, the gross premiums less the deductions to cover expenses and charges as shown in column C of the Illustrative Table of Projected Benefits and Charges and less the deductions for the cost of protection benefits, allowing for

the actual (e.g. monthly) timing of premium receipts and deductions, must be determined in accordance with Section 3.

(b) The rate of investment return must be determined at which the accumulation of the gross premiums, without any deductions to cover expenses and charges other than deductions in respect of the cost of protection benefits and stamp duty or pension levy where this has been included in column C of the Illustrative Table of Projected Benefits and Charges, over the full duration of the Illustrative Table of Projected Benefits and Charges would produce the projected policy value calculated at (a).

(c) The difference between the rate of investment return underlying the Illustrative Table of Projected Benefits and Charges and the rate of investment return calculated at (b) is the Reduction in Yield.

10 Sustainability of protection cover

10.1 Paragraph 4 of Part 1 of Schedule 2 to the Information Regulations requires, in the case of a unit-linked protection policy, that:

(i) the period of time for which cover can be maintained by the premium shown, based on the assumptions underlying the illustration, shall be specified, if this is less than the term of the policy; and

(ii) the illustration shall state that an increased premium would be required to sustain cover beyond the period of cover shown.

Where it is required to determine the period for which cover can be maintained, it is permissible to assume that, should that period extend beyond age 100, this period may be described as "Whole of Life".

Other than in cases where it is projected that the period for which cover can be maintained extends beyond age 100, the illustration must also state the premium projected to be required to sustain cover for a further period of ten years beyond the period of cover shown.

10.2 Paragraph 5 of Part 1 of Schedule 2 to the Information Regulations requires the effect of a critical illness or permanent health insurance claim on surrender or maturity values to be specified. Where such a claim has the effect of reducing the surrender value, it may also have implications for the sustainability of other protection benefits under the contract. Similarly, payment of a claim under a dual life policy may have implications for the sustainability of other protection benefits under the contract. Where payment of a protection benefit has implications for the sustainability of other protection benefits under the contract, the effects of the payment of such a protection benefit on the subsequent premium under the policy must be clearly spelt out in a note to the Illustrative Table of Projected Benefits and Charges.

11 Tracker bonds

11.1 In the case of Tracker bonds, two additional sections, as set out in paragraphs 11.2 and 11.3, must be included immediately before the Illustrative Table of Projected Benefits and Charges.

11.2 A section headed "HOW DOES THE XXXX (INSERT NAME) TRACKER BOND WORK?" must be included, giving the following information:

(i) a brief description of the benefits promised by the Tracker bond to the policyholder, including the promised payment which applies;

(ii) the compound annual rate equivalent, before tax is deducted, of the promised payment, related to the total investment amount;

(iii) if averaging and/or any lock-in provisions can impact negatively on the promised benefits, as compared with an identical investment without such benefits, the way in which such an averaging or lock-in provision can lead to reduced returns (which must be disclosed prominently);

(iv) whether or not the Tracker bond will benefit from dividends payable on the underlying shares; if the Tracker bond will benefit from such dividends, a clear statement of the extent to which the Tracker bond will benefit; if the Tracker bond will not benefit from such dividends, a clear statement that the Tracker bond is suitable only as a capital growth investment;

(v) if the Company benefits from any dividend or interest income arising from the investment used to secure the cash bonus promised to the policyholder, a statement of this fact;

(vi) if there is any currency risk to the policyholder, in relation to the benefits promised, a statement of this risk; and

(vii) the period to the date of the promised payment.

11.3 A section headed "WHERE DOES MY INVESTMENT GO?" must be included, showing clearly the split of the investment amount into three components:

(i) the open market value, at the date of investment, of the payment promised to the policyholder;

(ii) the open market value, at the date of investment, of the cash bonus promised to the policyholder; and

(iii) charges representing the balance.

The implied compound annual rate, before tax is deducted, of the amount promised to the policyholder, relative to the total investment amount, must also be stated prominently.

The disclosure must take the following format:

Your proposed investment of €xx,xxx will be used, at the date of investment, as follows:	
€xx,xxx	or xx%, will be used to secure the promised payment of €xx,xxx payable after xx years and yy months. This is equivalent to a promised return on this part of your investment of xx% pa, before tax is deducted.
€xx,xxx	or xx%, will be used to secure the cash bonus which may be payable after xx years and yy months.
€xx,xxx	or xx%, will be taken in charges.
€xx,xxx	Total
If the cash bonus is zero, the promised payment will represent a return of x.x% pa, on your total investment over the period to the date of the promised payment, before any tax is deducted.	

The open market value referred to above is the open market cost of the benefit promised to the policyholder at the date of investment, net of the value of any commission or other reward or benefit payable to the Company and/or a connected party to the Company.

11.4 In the case of Tracker bonds, the projected total deductions to cover expenses and charges to date shown in the Illustrative Table of Projected Benefits and Charges will be the amount determined for the purposes of paragraph 11.3 as the amount taken in charges.

11.5 In the case of Tracker bonds, the projected policy value at the end of the period to the date of the promised payment, before tax is deducted, must be determined as the sum of the promised payment and the cash bonus. This determination must be made having regard to the assets to which the potential cash bonus is linked, the nature of that link and the rates of investment return specified in paragraph 6.2.

The policy value at the inception of the policy is the sum of the open market value, at the date of investment, of the promised payment and the open market value, at the date of investment, of the potential cash bonus.

Projected policy values at other times must be determined in a way that is consistent with the policy value at the inception of the policy and the projected policy value at the end of the period to the date of the promised payment.

Where the Tracker bond will not benefit from dividends payable on the underlying shares, projected policy values must be determined having regard to that fact.

Projected policy values, before tax is deducted, must not exceed premiums paid less projected deductions to cover expenses and charges accumulated at a gross rate of investment return of 5.75% per annum.

11.6 Where the Company decides to provide the client with a second Illustrative Table of Projected Benefits and Charges at a rate of investment return which is higher than the rate of investment return used in the primary illustration, the second Illustrative Table of Projected Benefits and Charges must be constructed on the assumption that the rate of investment return on the assets to which the potential cash bonus is linked will exceed the corresponding rate of investment return in the primary illustration by 2% per annum before deduction of taxation.

11.7 The value of the total return must be expressed and shown prominently as the equivalent compound annual rate, before tax is deducted.

11.8 The terms "*promised payment*", "*cash bonus*" and "*connected party*" must be construed in accordance with the Code.

12 Pension contracts

12.1 References in the Information Regulations to pension business contracts must be assumed to apply to all retirement annuities and defined contribution pension contracts to which the provisions of the Information Regulations apply.

12.2 Illustrations of maturity benefits on pension contracts, in either cash or annuity form, must show, with equal prominence and adjacent to the illustrated figures, the equivalent figures in present day values.

This may be achieved in either of two ways:

(a) Where a current salary is provided, the equivalent figures may be expressed as a percentage or multiple of final salary on the assumption that the current salary escalates at the compound rate determined in accordance with the provisions of paragraph 12.3.

(b) Alternatively, the equivalent figures may be shown in monetary form by deflating the illustrated figures at the compound rate determined in accordance with the provisions of paragraph 12.3.

12.3 The following approach must be used in determining the rate of salary escalation or the rate of deflation required for the purposes of paragraph 12.2:

(a) in the case of the primary illustration, the current salary must be assumed to escalate, or the illustrated figures must be deflated, at a compound rate of 3% per annum;

(b) in the case of the second illustration, where the Company has chosen to provide the second illustration at a rate of investment return greater than the rate of investment return assumed in the primary illustration, the current salary must be assumed to escalate, or the illustrated figures must be deflated, at a compound rate of 4% per annum;

(c) in the case of the second illustration, where the Company has chosen to provide the second illustration at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, the current salary must be assumed to escalate, or the illustrated figures must be deflated, at a compound rate which is not less than the rate determined as the assumed rate of investment return less 2.5% per annum; and

(d) in the case of the second illustration, where the Actuary has advised the Company to provide the second illustration at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, the Actuary must advise the Company as to the appropriate compound rate at which the current salary must be assumed to escalate or at which the illustrated figures must be deflated.

13 Premium and benefit increases

13.1 Where premium or benefit increases are opted for from outset, the effect of these must be reflected in the Illustrative Table of Projected Benefits and Charges, on the basis of best estimates of the determinant of the increases which are consistent with the assumed investment return, subject to the proviso that, in the case of pension contracts, the rate of premium increase assumed must not exceed the rate of salary escalation or the rate of deflation required for the purposes of paragraph 12.2.

13.2 Where, for the purposes of paragraph 13.1 or otherwise, it is necessary to make assumptions about the rate of change in consumer prices or the rate of change in general earnings, the following approach must be used:

(a) in the case of the primary illustration, the rate of change in general earnings used must be 3% per annum, while the rate of change in consumer prices used must be 2% per annum;

(b) in the case of the second illustration, where the Company has chosen to provide the second illustration at a rate of investment return greater than the rate of investment return assumed in the primary illustration, the rate of change in general earnings used must be 4% per annum, while the rate of change in consumer prices used must be 3% per annum;

(c) in the case of the second illustration, where the Company has chosen to provide the second illustration at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, the rate of change in general earnings used must not be less than the rate determined as the assumed rate of investment return less 2.5% per annum, while the rate of change in consumer prices used must not be less than the rate determined as the assumed rate of investment return less 3.5% per annum; and

(d) in the case of the second illustration, where the Actuary has advised the Company to provide the second illustration at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, the Actuary must advise the Company as to the appropriate rate of change in general earnings and the appropriate rate of change in consumer prices to assume.

14 Annuity rates

14.1 The Information Regulations require the conversion of retirement funds into an annuity to be illustrated. Except where paragraph 14.6 or paragraph 14.7 applies, in making this calculation, the Actuary must:

(a) use a maximum interest rate of 2% per annum, which is deemed to be net of provision for expenses;

(b) use female mortality for the retiree (irrespective of the actual gender of the retiree) and male mortality for the retiree's spouse or civil partner; and

(c) use the following mortality assumptions:

Female mortality:	50% ILT15 (Females);
Male mortality:	42% ILT15 (Males); and

(d) assume that spouses or civil partners are the same age, or where actual age is known this may also be used.

14.2 Subject to paragraphs 14.6 and 14.7, provision for improving mortality beyond 2013 must be made by assuming that the price of annuities will increase by the following annual compound rates for each calendar year after 2013:

Annuities based on female mortality with no attaching spouse's annuity	0.33%;

and

Last survivor annuities: 0.33%.

14.3 Illustrations of benefits on pension contracts in annuity form must show annuities which escalate. Level annuities may also be shown, but these must not be given greater prominence than escalating annuities. The rate of escalation used must be 2% per annum, except in the case of a second illustration which the Company has chosen to provide at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, where the rate of escalation used must not be less than 2% per annum.

14.4 All annuities shown, other than in the case of a second illustration which the Company has chosen to provide at a rate of investment return not greater than the rate of investment return assumed in the primary illustration, must be assumed to be payable monthly in advance and guaranteed to be payable for a period of five years.

14.5 A note must be attached to the Illustrative Table of Projected Benefits and Charges describing the nature of the annuity shown, including the duration or durations of life for which the annuity is payable and any reduction that would apply in the event of a death during this period and also including the information specified in paragraphs 14.3 and 14.4.

14.6 Where the remaining term to the assumed retirement age is less than 5years, then either an appropriate current market annuity rate, or an annuity rate derived from an actuarial basis broadly consistent with prevailing market annuity rates, must be used to illustrate the conversion of the retirement fund into an annuity. In addition, for all illustrations, a statement must be made to the effect that the actual annuity rate at retirement is likely to differ from the annuity rate used in the illustration.

14.7 If a contract contains a guaranteed annuity rate which is greater than the rate determined above, this rate must be used in the illustration of the conversion of the retirement fund into an annuity.

15 Approved retirement funds

15.1 Where, under an Approved Retirement Fund, periodic benefit payments are to be received by the policyholder, illustrations of projected benefits, expenses and charges must be provided at gross rates of investment return before deduction of taxation of 0.25% per annum and 5.75% per annum, unless the Actuary has advised the Company that to use such rates of investment return would be inappropriate, in which event the Actuary must advise the Company as to the appropriate rates of investment return to assume.

15.2 Illustrations of periodic benefit payments under an Approved Retirement Fund must show payments which escalate. Level payments may also be shown, but these must not be given greater prominence than escalating payments. The rate of escalation used must be 2% per annum.

15.3 In the case of illustrations where the fund will ultimately become depleted, the period of time for which the periodic benefits can be maintained must be stated.

15.4 The fact that making regular withdrawals may result in the Approved Retirement Fund becoming fully used up during the policyholder's lifetime, especially if investment returns are poor and / or a high level of withdrawal has been chosen, must be clearly spelt out in a note or notes to the Illustrative Table of Projected Benefits and Charges.

16 Changes which materially affect the previous illustrations

16.1 Where events occur, relating specifically to the Company, which the Actuary considers will have a material adverse effect on the illustrative projected benefits or charges most recently supplied to policyholders, the Actuary must advise the Company accordingly, so that the policyholders so affected may be appropriately advised. A revised Illustrative Table of Projected Benefits and Charges, in the same form as specified in the Information Regulations, must be supplied to such policyholders not later than when an annual written statement is next provided to the policyholder by the Company under the provisions of Regulation 9 of the Information Regulations.

16.2 Examples of events relating specifically to the Company which might fall under this heading are increases in the deductions for the cost of protection benefits and increases in the deductions to cover expenses (for example by increasing regular management charges either explicitly or implicitly - an example of the latter could be an alteration in the approach to which costs are directly borne by the fund).

An increase in policy fees in line with inflation which had been illustrated at outset would not constitute an increase in charging policy for the purposes of interpreting this paragraph. However, the Actuary must assess whether any increase in policy fees is in excess of the level underlying the illustrative charges most recently supplied to policyholders, for example to meet Company expenses increasing ahead of inflation, in which case this would constitute an increase in charging policy.

16.3 Other examples of events relating specifically to the Company which might fall under this heading are:

(i) an increase in the level of expenses associated with the administration of with-profit policies falling to be met by with-profit policyholders which are considered by the Actuary to be of a permanent nature and which exceed the level underlying the most recent illustrations; and

(ii) changes in the division of profits between shareholders and policyholders, or changes in the methodology or assumptions used to determine asset shares.

16.4 If an increase, which was not reflected in the most recent Illustrative Table of Projected Benefits and Charges supplied to the policyholder, is proposed to be made to the premium of a policy to which the provisions of the Information Regulations apply, an Illustrative Table of Projected Benefits and Charges relating to the increase in the premium, in the same form as specified in the Information Regulations, must be supplied to the policyholder either prior to the issuing of, or simultaneously with, the documentation sent to customer giving effect to the increase in the premium.

If any other alteration, which was not reflected in the most recent Illustrative Table of Projected Benefits and Charges supplied to the policyholder and which the Actuary considers will have a material impact on the illustrative projected benefits or charges most recently supplied to the policyholder, is made to the benefits or the premium of a policy to which the provisions of the Information Regulations apply, a revised statement of illustrative projected benefits and charges, in a form specified by the Actuary, must be supplied to the policyholder not later than when an annual written statement is next provided to the policyholder by the Company under the provisions of Regulation 9 of the Information Regulations.

The provisions of this paragraph do not apply to any alterations made to the benefits or the premium of a policy arising solely from the implementation of any automatic benefit or premium increase options which were selected by the policyholder and which were reflected in the most recent Illustrative Table of Projected Benefits and Charges supplied to the policyholder, notwithstanding that the actual levels of increase may differ from the best estimates used in the most recent Illustrative Table of Projected Benefits and Charges.

The provisions of this paragraph do not apply to a cessation of premium payments, either temporary or permanent, under a policy.

PART II: GUIDANCE ON THE PROVISION OF INFORMATION ON CHARGES FOR EXPENSES AND PROTECTION BENEFITS WHICH ARE EXPLICIT

17 Projected total deductions to date for the cost of protection benefits

17.1 Column D of the Illustrative Table of Projected Benefits and Charges shows the *"projected cost of protection benefits to date"*. Protection benefits would not include the return of any policy value in the event of claim, i.e. they refer to risk benefits. Stamp duty on protection benefits may be regarded as a cost of protection benefits.

17.2 The Actuary must use the current charging basis (with allowance for rates increasing with age) where the Company operates a process for making explicit charges to cover risk benefits, unless there is reason to believe that the actual charging basis over the course of the contract will be higher than that currently applicable.

17.3 Reductions in mortality and other risk charges arising out of anticipated secular improvements in mortality must not be incorporated when illustrating the cost of benefits in Column D.

17.4 Where the Actuary expects a deterioration in risk experience, leading to a consequent increase in the charging basis under the contract, this must be reflected in the illustrations. In making this assessment, the Actuary must take cognisance of any guarantees which apply, the precise nature of the policy design and contractual benefits and any other relevant information supplied by the Company to the policyholders in question.

17.5 Reductions in charges which depend on the duration the policy is in force, or equivalently the calendar year when making the charge, must not be incorporated unless the charges as so reduced are contractually guaranteed.

17.6 The cost of protection benefits shown in the Illustrative Table of Projected Benefits and Charges must not have the effect of suggesting that expenses under the contract are lower than they actually are. For example, charges made which are independent of the size of the protection benefits must be shown as a deduction to cover expenses.

18 Combined charge for protection benefits and expenses

18.1 Where a separate charge is not made for the cost of protection benefits, the Actuary must determine a cost of protection benefits using the approach set out in paragraph 18.2 and assume that the balance of the total charge is in respect of expenses.

18.2 The cost of protection benefits for the purposes of paragraph 18.1 must be determined for each month using rates which vary in accordance with the value of the protection benefits provided to the client in that month. The rates used for this purpose must have regard to the rates charged by the Company

under similar products where the deductions made for protection benefits are explicit and are separate to the deductions made to cover expenses. The rates under any similar product to which regard is had must be adjusted for this purpose to reflect any differences in the nature or scope of the cover provided. In particular, if the product for which the cost of protection benefits is being determined provides cover only to a fixed date and a product to which regard is had provides open-ended cover, the rates under the latter product must be reduced by the cost of the continuation option contained in that product before being used to determine the cost of protection benefits under the former product.

Where a Company does not offer a similar product under which the charges made for protection business are explicit, the Actuary must determine an appropriate scale of rates having regard to prevailing rates in the market under similar products with explicit charges for protection benefits. Such a scale of rates must be adjusted for any factors the Actuary considers relevant, such as, for example, any differences in the underwriting standards of the Company relative to the overall market.

18.3 The Actuary may choose to limit the cost of protection benefits for each month to the premium payable in that month.

18.4 An Illustrative Table of Projected Benefits and Charges need not be provided in the case of immediate annuity contracts.

18.5 In the case of a policy which does not acquire a surrender or maturity value and where there is a combined charge for protection benefits and expenses that is guaranteed for the full duration of the policy, the notice described in paragraph A(3)(iii) of Schedule 1 to the Information Regulations must not be included in the Illustrative Table of Projected Benefits and Charges.

19 Projected total deductions to date to cover expenses

19.1 Column C of the Illustrative Table of Projected Benefits and Charges shows the *"projected expenses and charges to date"*. This column must be interpreted as including charges for profit and any surrender penalties.

19.2 The Actuary must reflect the current charging basis for expenses, unless there is reason to believe that this will increase in the course of the policy. In particular, any anticipated systematic adjustment in policy charges to reflect inflation of expenses must be allowed for, using, where necessary, assumptions about the rate of change in consumer prices or the rate of change in general earnings determined in accordance with the provisions of paragraph 13.2. The Actuary must not anticipate any reduction in charges, unless these are contractually guaranteed.

19.3 The Actuary must reflect the monthly timing and the actual level of expense deductions in constructing Column C of the Illustrative Table of Projected Benefits and Charges.

19.4 The Actuary may assume that investment return is achieved after:

(a) meeting the costs of buying and selling investments, including transaction related stamp duty, to the extent that these are the arm's length costs actually disbursed – for the avoidance of doubt, such costs do not include charges made in respect of investment management;

(b) custodial and other fees which are the necessary costs of maintaining an investment fund, to the extent that these are the arm's length costs actually disbursed; and

(c) meeting the arm's length cost of routine property maintenance, including property valuation fees and rent collection.

Accordingly, these charges need not be shown as deductions to cover expenses or profit.

19.5 The following costs must not be regarded as implicit in the investment return:

(a) costs of buying and selling investments or maintaining properties which are in excess of what could be negotiated on an arm's length basis;

(b) bulk discounts on stockbroker commissions which are retained for the Company's own account; or

(c) the costs of investment management.

This list is not necessarily exhaustive.

19.6 With the exception of the investment related charges exempted above and the costs of protection benefits illustrated in Column D, all other charges must be shown as deductions to cover expenses (and/or profits) in Column C. The following is a typical list of such charges in the context of a unit-linked contract, but this list is not necessarily exhaustive.

(a) Bid/offer spreads or premium charges. "Charges" arising from the operation of dual pricing which do not accrue to the Company need not be shown as deductions;

(b) Regular management charges net of "loyalty bonuses", to the extent that these are in addition to the investment costs described in paragraph 19.4;

(c) Extra management charges on "Initial" or "Capital "units;

(d) Retention of dividend and other income;

(e) Policy fees;

(f) Reduced allocations of premiums to units;

(g) Non-investment periods during which premiums received are not allocated to units;

(h) "Rounding" charges. In making a best estimate of the effects of rounding charges where these are uncertain, the Actuary must err on the side of overstating the potential effect. Best practice would be to illustrate a "worst case" scenario.

(i) Explicit charges, e.g. for policy set up or medical expenses.

In addition to these charges, penalties may apply and these must be allowed for in illustrations of projected surrender or maturity values. For example, "Initial Units" will usually carry a penalty factor on early surrender.

19.7 For some products, e.g. those where the charge takes the form of all or a proportion of the investment income from the portfolio of investment securities or all or a proportion of the dividend yield on an index of security prices or other measure of capital values, the form of the charge will be explicit but its level may not be known precisely at inception of the contract but may, for example, become known only as actual experience emerges. In these circumstances, illustrations of projected surrender or maturity values must be based on best estimates of the anticipated deductions. The pricing of the product will have been based on a targeted level of deductions and, where applicable, this may provide a suitable estimate.

19.8 Where a product invests in other packaged products or investment vehicles it will be necessary to 'look through' to the underlying assets to ensure that all charges and expenses, both implicit and explicit, which the investor will bear are included.

PART III: GUIDANCE ON THE PROVISION OF INFORMATION ON CHARGES FOR EXPENSES AND PROTECTION BENEFITS FOR WITH-PROFITS POLICIES, BOTH CONVENTIONAL AND ACCUMULATING, AND ALL OTHER POLICIES WHERE SOME OR ALL OF THE CHARGES MAY NOT BE EXPLICIT

20 Introduction

20.1 In preparing illustrations of future benefits for with-profits contracts projected deductions to cover expenses and charges (Column C) and for the cost of protection benefits (Column D) must be made.

20.2 Projected deductions to cover expenses and charges are defined as those expenses which the Company reasonably determines to be appropriate to the contract, having regard to:

(i) the principal terms of the contract;

(ii) any transfers to shareholders' funds or equivalent retentions from established surplus offset by any sustainable rate of transfer of surplus from non-profit business; and

(iii) the advice of the Actuary and any guidance notes issued by the Society for this purpose.

21 Equity and commercial sensitivity

21.1 The outcome of the apportionment will ultimately be reflected in published figures. The Actuary must ensure that the results of the apportionment give rise to figures which, in the context in which they will be presented, fairly reflect the expected effect of the projected deductions to cover expenses and charges upon the return under the policy and which are not believed to mislead.

21.2 The Actuary must bear in mind the commercial sensitivity of these figures, particularly projections, and must adopt an approach which is neither too conservative nor unduly optimistic (i.e. a 'best estimate' approach must be used).

22 Adjustments to reported expenses

22.1 Those commission and management expenses which were, or would be, reported in Form 2 of the annual return to the Central Bank of Ireland or in equivalent returns to other supervisory authorities will normally provide a suitable starting point for any expense apportionment.

22.2 Adjustments must be made where necessary to make the base more relevant to the purpose of the apportionment. Such adjustments may be required because of timing differences, for example accounting year vis-à-vis base year for the provision of information on expenses, and to ensure that all expenses properly

attributable to the long-term business fund are included. For example, due allowance must be made for:

(i) Notional interest forgone on subsidised loans to insurance intermediaries or sales employees, including investments in insurance intermediary firms on non-commercial terms, using an appropriate commercial rate as a guideline;

(ii) Full commercial rent on premises occupied by the Company and owned by the Company (whether by the life fund or the shareholders' fund) or any other Company within the group;

(iii) Either actual or SSAP 24 contributions to staff pension schemes and medical expenses schemes. Whichever approach is adopted, that approach must be followed consistently from year to year;

(iv) Amortisation of capital expenditure in respect of purchase of equipment or of development costs (see paragraph 22.3);

(v) Bad debts on commission or any other advances or loans to insurance intermediaries or sales employees;

(vi) Costs of investment management;

(vii) The actual cost of services provided to the Company on non-commercial terms by other companies within the same group or, in the case of a branch, the actual cost of services provided to the branch by its Head Office;

(viii) Where with-profits policies do not participate in the profits or losses of certain classes of business, expenses allocated to these classes do not need to be taken into account.

22.3 Development costs will normally be written off in the year in which they are incurred. Where, however, the development costs are of an exceptional one-off nature, they may be amortised over a limited period, related to the period over which the benefits of the expenditure are expected to be obtained, and not normally exceeding five years. If amortisation of development costs is adopted, the amortisation, with interest, of prior years' costs must be brought into account.

22.4 There may be circumstances where it is considered that certain expenses may be met from the estate or shareholders' funds and that not to make allowance for this would result in misleading provision of information.

Examples might include:

(i) Large, one-off costs;

(ii) Support for exceptional new business expenses in a particular year;

(iii) Temporary support for maintenance expenses whilst cost-reduction measures are being taken.

22.5 In the circumstances envisaged in paragraph 22.4, the expenses in question may be excluded from projected deductions to cover expenses and charges, provided that all the following conditions are met:

(i) Sufficient finance is available from the estate or from shareholders' funds as appropriate to meet such expenses as they arise. Where the expenses which will be met from the estate or from shareholders' funds are expected to persist for most or all of the policy duration, it is particularly important that the Actuary can demonstrate how, on realistic assumptions, those expenses will never fall upon policyholders' asset shares.

(ii) A firm commitment exists that the resultant expense assumptions will be used as the basis for determining asset shares for the relevant policies both immediately and in the future. A written record of approval of the commitment by the Board of Directors of the Company would typically be appropriate evidence.

(iii) Any reductions in incurred costs anticipated in future years are evidenced by definite business plans which have been prepared on assumptions which, in the opinion of the Actuary, are realistic.

22.6 It is permissible to ignore the investment management costs on the estate.

22.7 Where a product invests in other packaged products, it will be necessary to 'look through' to ensure that all charges and expenses, both implicit and explicit, which the investor will bear are included.

23 Initial apportionment

23.1 In making an apportionment, the Actuary may reasonably consider that some expenses will not vary with the volume of business (and may be regarded as fixed costs in the short term) while other expenses may increase or decrease as the volume of business rises or falls (and may be regarded as variable costs). The relationship with volume is not necessarily direct or proportionate and changes in variable costs may lead or lag behind changes in volume. The allocation between fixed and variable costs is not an exact science and this is especially so where large development costs are being incurred or if the Company is young and small.

23.2 The Actuary may find it helpful first to divide costs into different categories, each of which may be subdivided into fixed and variable elements. Such categories might include:

(i) New business or initial costs (including the costs of cancellations from outset and unsuccessful sales efforts);

(ii) Renewal, maintenance or discontinuance costs;

(iii) Claim costs;

(iv) Investment costs;

(v) Development costs;

(vi) Overheads (e.g. general management).

Judgement must be exercised in any subdivision, although a degree of objectivity is possible in most categories.

23.3 The Actuary may also reasonably consider that many expenses can be identified with particular product lines, both with-profits and non-profit. This can be done either explicitly, or by the use of techniques such as time-spent analysis. The actual expense loadings implicit in with-profits policies may not be relevant to this process, particularly if they are out of date. The Actuary must ensure that the allocation of expenses to non-profit business is fair and not in excess of those which are sustainable by that class of business.

23.4 The apportionment of overhead costs, which can be a significant proportion of the total expenses, requires considerable judgement and can be carried out in a number of credible and equitable ways, depending upon the type of overhead cost. For example, overhead costs could be added as a layer on top of some or all of the non-overhead costs listed in paragraph 23.2. Overhead costs could also be allocated uniformly over all product lines or with a bias towards classes of business which benefit most from them (for example, those classes requiring most management attention).

23.5 It is crucial that costs are allocated consistently:

(i) across all product lines;

(ii) in the treatment of regular and single premiums, and increment policies;

(iii) across all companies within the same marketing group;

(iv) over various distribution channels;

(v) across all territories;

(vi) from one year to the next.

A major change in the basis should normally reflect a significant change in the way in which a Company or group conducts its business.

23.6 If the Actuary has reasonable grounds to believe that the costs for the period will be higher than those based on the most recent experience, those higher costs must be used.

23.7 Costs lower than those based on the most recent experience must not be used unless the Actuary has strong grounds for believing that the costs for the period will indeed be lower.

23.8 In making an assessment under paragraph 23.6 or 23.7, account may reasonably be taken of inflation and of any intended changes in commission or other forms of sales remuneration.

24 Translation to policy level

24.1 Each different category of expenses so obtained must be translated down to the policy level by dividing it by the measure of volume appropriate to that category of expense.

24.2 The normal basis for this translation would be the most recent experience. However, if the Actuary has reasonable grounds for believing that volumes will be lower than those indicated by the experience, those lower volumes must be used. Only if the Actuary has strong grounds for believing that volumes will be higher than those indicated by the experience may higher figures be used.

24.3 If intending to use volumes higher than those implied by the most recent experience, the Actuary must ensure that any volume assumptions are justifiable taking into account:

(i) Current volumes;

(ii) The Company's plans;

(iii) Expected market conditions (including levels of early terminations); and

(iv) Any other factors which the Actuary considers to be appropriate.

New business assumptions for future periods must be consistent with the assumptions made regarding acquisition expenditure for those periods, taking into account the Company's recent experience of the costs of expansion if necessary.

24.4 In the case of a new product, the Actuary must be guided by the expenses attributable to the existing product that most closely corresponds to it, but with proper regard to what the Actuary regards as material differences in cost.

25 Consistency with bonus philosophy

25.1 For with-profits policies, the apportionment of expenses for the purpose of projections and provision of information must be consistent with the current methods of apportionment of expenses for the purpose of determining bonuses.

25.2 Reasonable adjustment must be made to the apportionment to ensure this, paragraph 23.5 notwithstanding. Examples of when an adjustment might be reasonable are:

(i) If the policy fee differs from the apportioned fixed expenses expressed on a per policy basis - in which case the policy fee could reasonably be regarded as the only fixed expense per policy and the excess spread onto the variable expenses. Inflation of renewal expenses must be allowed for in this context (see Section 24).

(ii) If no account is taken of known differences in expenses between different policy categories when determining bonuses - in which case the attributed expenses must not be differentiated.

(iii) If a policy is offered at more than one price to reflect different acquisition or renewal costs between or within different distribution channels - in which case there would normally be different attributed policy costs for each.

(iv) If the attributable expenses for accumulating with-profits business exceed the explicit charges - in which case the Actuary may consider it appropriate to express the excess as an additional fund-related charge particularly if, in profit-testing the product, an implicit management charge is assumed.

25.3 The assumed split as between future annual bonuses and terminal bonuses may also affect projections and other features of the provision of information. This split must be reasonable and justifiable, taking into account the current split and the assumed future investment return. In particular, if terminal bonus is currently being added, it would not normally be appropriate to assume that there would be no terminal bonus in the future at any of the assumed rates of investment return.

25.4 It would not normally be appropriate to ignore any expenses attributable to with-profits business. If, for example, investment earnings from the estate were considered by management to act to reduce the expenses attributable to one or more categories of policy, this must not be taken into account.

It is permissible, however, to ignore the investment management costs on the free estate.

26 Transfers to shareholders' or other funds

26.1 Where transfers are likely to be made to shareholders' funds out of profits arising from with-profits business, allowance must be made for the expected cost of those transfers.

26.1.1 Transfers must be assumed to take place with the same frequency and in the same manner as has been the case in the past, unless any specific change is intended.

26.1.2 Transfers must be assumed to be the same proportion of distributable surplus as has been the case in the past, unless any specific change is intended. Future emergence of surplus must be assumed to be at the level which would be supported by the investment return assumed.

26.1.3 The bonus structure assumed must accord with that currently applying, unless there is a specific intention of a different structure applying in future.

26.1.4 In taking account of shareholders' transfers, appropriate allowance must be made for the way in which those transfers are calculated. Where, for example, the shareholders' transfer entitlement is one-ninth of the valuation cost of with-profits bonuses, the transfers must be calculated using appropriate assumptions about the rate of future bonus supportable and the valuation basis. The current valuation basis may reasonably be assumed to continue unchanged, subject to adjustment as appropriate to ensure consistency with other future assumptions, notably the future investment return.

26.2 Where the Company, whether proprietary or mutual, has the practice or intention of permanently withholding a proportion of surplus from with-profits policyholders, this retention must be treated in a similar manner to a transfer of surplus to shareholders. An example would be when an office has traditionally withheld surplus to expand its estate with no intention to return it to policyholders, even as terminal bonus, and has no intention to change this practice. Contributions to a bonus smoothing account which are not systematic and where the Actuary expects that contributions to and from the account will average out over the longer term are not 'equivalent retentions'.

26.3 Amounts of transfers or retentions determined as above may be offset by realistically sustainable profits from other sources. The starting point for assessing this offset must be a best estimate of the current level of surplus from other sources attributable to the with-profits fund. This amount may be expressed as a proportion of the surplus transferred to shareholders and/or withheld. A similar proportion of future transferred or retained surplus, adjusted as appropriate for any changes in the mix or profitability of business reasonably anticipated, could then be offset. The offset must be determined using assumptions consistent with this ASP. The offset must not, however, be greater than the cost of transfer or retention.

27 Mortality and other costs

27.1 Projected deductions for the cost of protection benefits must include mortality and morbidity on either the current rate or scale (where explicit charges are made) or on a basis appropriate to the class of investor (where no explicit charge is made.), with allowance for rates increasing with age.

27.2 Where no explicit charge is made, the mortality (including allowance for AIDS) or morbidity assumed must be a best estimate of the rates expected to apply in the period of use of the figures. Improvements must not be anticipated for the future periods for insurances, although this may be appropriate for annuities.

28 Taxation

28.1 Where it is a Company's current practice for tax to be charged to with-profits policyholders' asset shares, allowance for such tax must be incorporated into the projected deductions to cover expenses and charges. Examples of such tax are shareholders' tax in relation to profits for proprietary companies and tax in relation to deemed profits for mutual companies.

28.2 In applying paragraph 28.1, current practice must be assumed to continue unless any specific change is intended. It would not be appropriate to assume that a change to current practice would be instigated if investment returns were to satisfy (or fail to satisfy) certain conditions.

29 Inflation

29.1 Any expenses which are expected to be incurred other than at the inception of a policy must be adjusted for the effect of future inflation, according to the Actuary's view of likely future rates of expense inflation. Where, for this purpose, it is necessary to make assumptions about the rate of change in consumer prices or the rate of change in general earnings, such assumptions must be determined in accordance with the provisions of paragraph 13.2.

29.2 Expenses expressed at policy level as a percentage of funds will automatically include an implicit allowance for inflation.

30 General

30.1 In the case of a brand new product, the Actuary must be guided by the expenses attributable to the existing product that most closely corresponds to it, but with proper regard to what the Actuary regards as material differences in cost.

30.2 The provision of information on expenses must be maintained up-to-date. Whenever the Actuary believes that it is appropriate to review the apportionment of expenses, he or she must conduct or request such a review. This must not be less frequently than annually. If the Actuary believes that the

current projection basis and provision of information on expenses are no longer appropriate, he or she must advise the Company accordingly.

EXPLANATORY NOTE

ACTUARIAL STANDARD OF PRACTICE LA-8, Version 1.17

This Explanatory Note does not form part of the ASP.

Version 1.17 of this ASP has been updated to reflect changes to the financial assumptions as per the table below:

Financial and Economic Assumptions Assumption	ASP LA-8 Reference	V 1.16 Rate	V 1.17 Rate
Maximum Investment growth - overall	6.1 & 6.2	4.5%	5.75%
Maximum Investment growth - equity & property	6.2(i)	4.5%	5.75%
Maximum Investment growth - fixed interest	6.2(ii)	1%	2.5%
Maximum Investment growth - cash	6.2(iii)	0%	0.25%
Maximum Investment growth - other assets with insufficient information	6.3	0%	0.25%
Difference between 2nd higher investment growth rate and 1st investment growth rate	6.7	2%	2%
Maximum Investment growth – Tracker bonds	11.5	4.5%	5.75%
Difference between 2nd higher investment growth rate and 1st investment growth rate – Tracker bonds	11.6	2%	2%
Salary inflation rate or benefit deflation rate	12.3(a)	1.5%	3.0%
2nd higher salary inflation rate or benefit deflation rate	12.3(b)	2.5%	4.0%
Maximum difference between 2nd lower investment growth rate and 2nd salary inflation rate	12.3(c)	4%	2.5%
Premium increases linked to general earnings	13.2(a)	1.5%	3.0%
Premium increases linked to consumer prices	13.2(a)	1%	2.0%
Premium increases linked to general earnings (2nd higher illustration)	13.2(b)	2.5%	4.0%
Premium increases linked to consumer prices (2nd higher illustration)	13.2(b)	2%	3.0%
Maximum difference between 2nd lower investment growth rate and rate of earnings inflation	13.2(c)	4%	2.5%
Maximum difference between 2nd lower investment growth rate and rate of consumer price inflation	13.2(c)	4.5%	3.5%
Maximum interest rate for annuities	14.1	0.5%	2.0%
Rate of escalation for annuities	14.3	1%	2.0%
Minimum rate of escalation for annuities (2nd lower illustration)	14.3	1%	2.0%
ARF illustrations with periodic benefit payments - first investment growth rate	15.1	0%	0.25%
ARF illustrations with periodic benefit payments - second investment growth rate	15.1	4.5%	5.75%
ARF illustrations with periodic benefit payments - rate of escalation of payments	15.2	1.5%	2.0%