GN31A(ROI): PERSONAL RETIREMENT SAVINGS ACCOUNTS PRODUCT INFORMATION

Classification

Practice Standard

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS, AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

Pensions Act, 1990 as amended ("The Pensions Act").

Personal Retirement Savings Accounts (Disclosure) Regulations, 2002 as amended ("The PRSA Disclosure Regulations").

Personal Retirement Savings Accounts (Operational Requirements) Regulations, 2002 as amended ("The PRSA Operational Regulations").

Application

PRSA Actuary or any actuary called upon to advise a PRSA provider on the provision of product information pursuant to the PRSA Disclosure Regulations (hereinafter referred to as the 'Actuary').

This Guidance Note is in three Parts. Part I applies to all PRSA contracts. Part II applies to PRSA contracts where the charges made are explicit. Part III applies to with-profits PRSA contracts, both conventional and accumulating, provided by life assurance companies and to all other PRSA contracts provided by life assurance companies where some or all of the charges may not be explicit.

Version	**Effective from**
1.0	04.09.2003
1.1	01.04.2006

PART I: GUIDANCE APPLICABLE TO ALL CONTRACTS

1 Introduction

1.1 This Guidance Note is issued pursuant to the PRSA Disclosure Regulations and the PRSA Operational Regulations, and, in particular, to Articles 3(3) and 4(2) of the PRSA Disclosure Regulations and to Article 9 of the PRSA Operational Regulations.

1.2 Article 3(3) of the PRSA Disclosure Regulations stipulates that:

"A Preliminary Disclosure Certificate shall be prepared by the PRSA provider in accordance with -

(a) Schedule B,

(b) the advice of the PRSA Actuary, and

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

Article 4(2) of the PRSA Disclosure Regulations stipulates that:

"A Statement of Reasonable Projection shall be prepared by the PRSA provider in accordance with -

(a) Schedule B,

(b) the advice of the PRSA Actuary, and

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

1.3 "The PRSA actuary" is defined as *"a person who is employed by a PRSA provider or has entered into a contractual arrangement with a PRSA provider to provide actuarial services in respect of a PRSA product or products and who complies with such requirements for such employment or such appointment as such an actuary as the Minister may determine from time to time and specifies in regulations*."

1.4 Article 9 of the PRSA Operational Regulations requires that a determination made by the Actuary pursuant to Section 119(1) of the Pensions Act and a declaration furnished by the PRSA provider to the Actuary shall both be submitted to the Pensions Board within two months of the end of each financial year.

The Actuary's determination is required to state *"if such be the case, that the advice given by the PRSA actuary and any guidance notes issued by the Society of Actuaries in Ireland pursuant to the provisions of the Act and regulations made under the Act have been complied with by the PRSA provider subject to any qualifications, amplifications or explanations in relation to that advice as the PRSA actuary considers appropriate"*.

The PRSA provider's declaration is required to state *"if such be the case, that all information requested by the PRSA actuary for the purpose of making his determination in accordance with sub-article (1) has been provided to the PRSA actuary and is accurate"* and the PRSA provider is required to include in the declaration *"such qualifications, amplifications or explanations as the PRSA provider considers appropriate"*.

1.5 While the benefits and charges which are illustrated in the provision of product information are ultimately the responsibility of the PRSA provider, the PRSA Disclosure Regulations require a PRSA provider to have regard to any guidance notes issued by the Society of Actuaries in Ireland, as well as requiring consultation with the Actuary.

This Guidance Note constitutes the guidance relating to Preliminary Disclosure Certificates and Statements of Reasonable Projection issued by the Society of Actuaries in Ireland referred to in the PRSA Disclosure Regulations.

This Guidance Note also applies to any Actuary providing advice to a PRSA provider pursuant to the PRSA Disclosure Regulations.

1.6 The Minister for Social and Family Affairs has responsibility in law for the implementation of the PRSA Disclosure Regulations. The Actuary should therefore, subject to the request or consent of the PRSA provider, be prepared to explain and justify to the Department of Social and Family Affairs and to the Pensions Board the advice given by the Actuary to the PRSA provider which underlies Preliminary Disclosure Certificates and Statements of Reasonable Projection.

2 Scope of Guidance Note

2.1 This Guidance Note sets out the principles in accordance with which the various parameters underlying the calculation of the figures required to be provided in the Table of Benefits set out in the PRSA Disclosure Regulations should be determined.

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

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

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

2.3 Where illustrations of projected benefits and charges are provided other than in a Preliminary Disclosure Certificate or a Statement of Reasonable Projection, such illustrations must also be determined in accordance with the principles and assumptions set out in this Guidance Note.

3 Constructing the Table of Benefits

3.1 The projected contract values shown in the column headed *"Projected PRSA contract value if account is taken of applicable expenses and charges to date"* should be the amounts it is projected will be received by those contributors who transfer or mature.

3.2 The values shown in the column headed *"Projected PRSA contract value if no account is taken of applicable expenses and charges to date"* should be the amounts it is projected would be received by those contributors who transfer or mature if there were no contract charges in the period from the effective date of the statement up to and including the year referred to.

3.3 The projected investment growth shown in the column headed *"Projected investment growth to date"* means the investment return on the contract value if no account is taken of applicable expenses and charges to date, as defined in Paragraph 3.2, in the period from the effective date of the statement up to and including the year referred to.

3.4 The Table of Benefits should be interpreted as including an arithmetic demonstration of how the projected PRSA contract values if no account is taken of applicable expenses and charges to date, as defined in Paragraph 3.2, are derived, so that the value (if any) of the PRSA assets at the effective date of the statement plus the total amount of contributions paid into the PRSA contract in the period from the effective date of the statement up to and including the year referred to plus projected investment growth to date, as defined in Paragraph 3.3, will equal the projected PRSA contract value if no account is taken of applicable expenses and charges to date, as defined in Paragraph 3.2.

3.5 The determination of the contract values as defined in Paragraph 3.1 will require the construction of two additional columns of values, being:

(a) the investment return earned on the contract value if account is taken of applicable expenses and charges to date in the period from the effective date of the statement up to and including the year referred to; and

(b) the total deductions to cover expenses and charges of the PRSA provider made in the period from the effective date of the statement up to and including the year referred to.

The latter column is referred to in this guidance note as *"Projected expenses and charges to date"*.

Neither of these two columns is shown in the Table of Benefits.

3.6 The Table of Benefits should be constructed allowing for the monthly timing of contribution receipts, investment growth and deductions to cover charges.

3.7 A note should be included after the Table of Benefits in the case of Statements of Reasonable Projection, which advises the contributor that the accrued transfer value of the contract is included in the columns of the Table headed *"Projected PRSA contract value if no account is taken of applicable expenses and charges to date"* and *"Projected PRSA contract value if account is taken of applicable expenses and charges to date"*.

3.8 If the Actuary believes that any other information in addition to that provided in the Table of Benefits is needed to ensure that the provision of product information is fair, clear and not misleading, then the Actuary should advise the PRSA provider to seek approval from the Pensions Board, in accordance with the provisions of Article 7 of the PRSA Disclosure Regulations, to adapt the prescribed content and format of the Table of Benefits and any explanatory notes attaching thereto.

3.9 In preparing a Preliminary Disclosure Certificate for a Standard PRSA, the following assumptions should be made:

(a) the contract is following a default investment strategy;

(b) contributions will increase at each contract anniversary at the rate of deflation required for the purposes of Paragraph 7.1; and

(c) the contract is in respect of a male, and the resulting annuity is a single life annuity determined in accordance with Section 9.

The retirement income illustrated in the Table of Benefits in a Preliminary Disclosure Certificate for a Standard PRSA should be shown in present day values using the rate of deflation required for the purposes of Paragraph 7.1.

3.10 The PRSA Disclosure Regulations provide that the values given in the Table of Benefits contained in the Preliminary Disclosure Certificate for a PRSA, not being a Standard PRSA, to be provided before a contributor 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. Where Tables of Benefits are prepared on a generic basis, the guiding principle that contributors be provided with illustrations of projected benefits and charges which are fair, clear and not misleading also applies. The generic Table of Benefits used should be typical in relation to product parameters, such as age, contract term and contribution amount. Where more than one remuneration structure applies to the product in question, the charging structure corresponding to the highest such remuneration structure should be used in constructing the generic Table of Benefits.

4 Durations for which figures are to be given

4.1 Where the figures between quinqennial durations in force do not grow at a steady rate, the values for all the intervening years should 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 the projected total deductions to date to cover expenses for any contract anniversary is less than the corresponding figure for one year earlier, the figures between the two durations should be considered to be not growing at a steady rate.

4.2 Where the figures between the latest contract 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 contract anniversaries occurring on or after the latest anniversary occurring five years or more before the maturity date should be given.

4.3 The values for the contract anniversary before the maturity date should be given, and the investment term assumed and the number of contributions assumed to be paid should be stated below the Table of Benefits.

5 Assumed Investment Return

5.1 In the case of contracts following a default investment strategy, the PRSA Disclosure Regulations prescribe that the rate of investment return, before deduction of all anticipated charges related to the contract, to be assumed in illustrating projected future benefits under the contract is 6% per annum.

5.2 In the case of contracts not following a default investment strategy, the PRSA Disclosure Regulations prescribe that the maximum rate of investment return, before deduction of all anticipated charges related to the contract, to be assumed in illustrating projected future benefits under the contract is 6% per annum.

5.3 In the case of contracts not following a default investment strategy, the rate of investment return, before deduction of all anticipated charges related to the contract, shall be determined having regard to the asset mix relating to the contract, on the following basis:

(i) the gross investment return for equities and property will be 7% per annum;

(ii) the gross investment return for fixed interest securities will be 4.5% per annum;

(iii) the gross investment return for cash will be 3% per annum; and

(iv) the gross investment return for all other asset classes will be 3% per annum, other than for asset classes for which the Society has specified that a different gross investment return is to be used, in which cases the relevant gross investment returns so specified by the Society will be used.

The rate of investment return so determined shall be subject to an upper limit of 6% per annum.

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

6 Effect of Charges

6.1 The Effect of Charges should be calculated as a percentage to the nearest first decimal place.

6.2 The Effect of Charges should be calculated as follows.

The amount derived by accumulating, at the rate of investment return underlying, and for the full duration of, the Table of Benefits, the gross contributions less the deductions to cover expenses and charges, allowing for the actual monthly timing of contribution receipts and expense deductions, should be determined.

The rate of investment return should be determined at which the gross contributions, without any deductions to cover charges, should be accumulated over the full duration of the Table of Benefits to produce the amount so calculated.

The difference between the rate of investment return underlying the Table of Benefits and the rate of investment return so calculated is the Effect of Charges.

7 Retirement Benefits

7.1 Illustrations of maturity benefits on PRSA contracts, in either cash or annuity form, should show the equivalent figures in present day values by deflating the illustrated figures at the compound rate of 3% per annum.

8 Contribution Increases

8.1 Where contribution increases are opted for from outset, the effect of these should be reflected in the Table of Benefits, 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 the rate of contribution increase assumed should not exceed the rate of deflation required for the purposes of Paragraph 7.1.

8.2 Where, for the purposes of Paragraph 8.1 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 rate of change in general earnings used should be 3% per annum, while the rate of change in consumer prices used should be 2% per annum.

9 Annuity Rates

9.1 The PRSA Disclosure Regulations require the conversion of retirement funds into an annuity to be illustrated. In making this calculation, the Actuary should use an interest rate of 4% per annum, which is deemed to be net of provision for expenses, and the following mortality assumption:

Males: 76% PMA 92 (C = 2004); and

Females: 76% PFA 92 (C = 2004).

9.2 Provision for improving mortality beyond 2004 should be made by assuming that the price of annuities will increase by the following annual compound rates for each calendar year after 2004:

Male annuities with no attaching spouse’s annuity:	0.225%;
Female annuities with no attaching spouse’s annuity:	0.175%; and
Last survivor annuities:	0.125%.

9.3 Illustrations of benefits in annuity form should show annuities which escalate at a rate of 2% per annum.

9.4 All annuities shown should be payable monthly in advance, and should be guaranteed to be payable for a period of five years.

9.5 Statements of Reasonable Projection and Preliminary Disclosure Certificates should contain a note 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 Paragraph 9.4.

9.6 If a contract contains a guaranteed annuity rate which is greater than the rate determined above, this rate should be illustrated.

10 Changes which materially affect the previous illustrations

10.1 Where events occur relating specifically to the PRSA provider, which the Actuary considers will have a material adverse effect on contributors' expectations, the Actuary should advise the PRSA provider accordingly, so that the contributors so affected may be appropriately advised. A revised Table of Benefits, in the same form as specified in the PRSA Disclosure Regulations, should be supplied to such contributors not later than when an annual Statement of Reasonable Projection is next provided to the contributors by the PRSA provider.

10.2 Examples of events relating specifically to the PRSA provider which might fall under this heading are 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).

10.3 Other example of events relating specifically to the PRSA provider 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.

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

11 Projected total deductions to date to cover expenses

11.1 The column of values of *"projected expenses and charges to date"* should be interpreted as including charges for profit.

11.2 The Actuary should reflect the current charging basis for expenses, unless there is reason to believe that this will increase in the course of the contract. The Actuary should not anticipate any reduction in charges, unless these are contractually guaranteed.

11.3 The Actuary should reflect the monthly timing and the actual level of expense deductions in constructing the column of *"projected expenses and charges to date"*.

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

(a) meeting the costs of buying and selling investments, including stamp duty, to the extent that these are the arm's length costs actually disbursed; and

(b) 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.

11.5 The following costs should 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) custodial fees;

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

(d) the costs of investment management.

This list should not be regarded as exhaustive.

11.6 With the exception of the investment related charges exempted above, all other charges should be shown as deductions to cover expenses (and/or profits) in the column of values of *"projected expenses and charges to date"*. The following is a typical list of such charges in a unit-linked context, but is not meant to be exhaustive.

(a) Contribution 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 11.4;

(c) Retention of dividend and other income;

(e) Reduced allocations;

(f) Non investment periods;

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

In addition to these charges, penalties may apply and these should be allowed for in determining the surrender or maturity value.

11.7 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.

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

12 Introduction

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

12.2 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 of Actuaries in Ireland for this purpose.

13 Equity and Commercial Sensitivity

13.1 The outcome of the apportionment will ultimately be reflected in published figures. The Actuary should 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.

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

14 Adjustments to Reported Expenses

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

14.2 Adjustments should 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 should 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 should be followed consistently from year to year;

(iv) Amortisation of capital expenditure in respect of purchase of equipment or of development costs (see Paragraph 14.3);

(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.

14.3 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 should be brought into account.

14.4 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.

14.5 In the circumstances envisaged in Paragraph 14.4, 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 should exist 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 board minute to this effect would typically be appropriate evidence.

(iii) Any reductions in incurred costs anticipated in future years should be evidenced by definite business plans on, in the opinion of the Actuary, realistic assumptions.

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

14.7 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.

15 Initial Apportionment

15.1 In making an apportionment, the Actuary would be expected to 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.

15.2 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.

15.3 The Actuary would also be expected to 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 should 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.

15.4 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 15.2. 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).

15.5 It is crucial that costs are allocated consistently:

(i) across all product lines;

(ii) in the treatment of regular and single contributions, 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.

15.6 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, then those higher costs should be used.

15.7 Costs lower than those based on the most recent experience should only be used if the Actuary has strong grounds for believing that the cost for the period will indeed be lower.

15.8 In making an assessment under Paragraph 15.6 or 15.7 account would normally be taken of inflation and of any intended changes in commission or other forms of sales remuneration.

16 Translation to Policy Level

16.1 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.

16.2 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 should be used. Only if the Actuary has strong grounds for believing that volumes will be higher than those indicated by the experience should higher figures be used.

16.3 If intending to use volumes higher than those implied by the most recent experience, the Actuary should 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 should 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.

16.4 In the case of a new product, the Actuary should 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.

17 Consistency with Bonus Philosophy

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

17.2 Reasonable adjustment should be made to the apportionment to ensure this, Paragraph 17.5 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 should be allowed for in this context (see Section 16).

(ii) If no account is taken of known differences in expenses between different policy categories when determining bonuses - in which case the attributed expenses should 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.

17.3 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.

17.4 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 then this cannot be taken into account.

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

18 Transfers to Shareholders' or Other Funds

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

18.1.1 Transfers should 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.

18.1.2 Transfers should 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 should be assumed to be at the level which would be supported by the investment return assumed.

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

18.1.4 In taking account of shareholders' transfers appropriate allowance should 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 should be calculated using appropriate assumptions about the rate of future bonus supportable and the valuation basis. The current valuation basis would normally be assumed to continue unchanged, subject to adjustment as appropriate to ensure consistency with other future assumptions, notably the future investment return.

18.2 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 should 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 contributions to and from the account should average out over the longer term are not 'equivalent retentions'.

18.3 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 should be a best estimate of the current level of surplus from other sources attributable to the with-profits fund. This amount could then 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 should be determined using assumptions consistent with this Guidance Note. The offset cannot, however, be greater than the cost of transfer or retention.

19 Mortality and Other Costs

19.1 Projected deductions for the cost of protection benefits should 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.).

19.2 In the latter case, the mortality (including allowance for AIDS) or morbidity assumed should be a best estimate of the rates expected to apply in the period of use of the figures. No improvements should be anticipated for the future periods for insurances, although this may be appropriate for annuities.

20 Taxation

20.1 Where it is a company's current practice for tax to be charged to with-profits policyholders' asset shares, allowance for such tax should 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.

20.2 In applying Paragraph 20.1 current practice should 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.

21 Inflation

21.1 Any expenses which are expected to be incurred other than at the inception of a policy should 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 should be determined in accordance with the provisions of Paragraph 8.2.

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

22 General

22.1 In the case of a brand new product, the Actuary should 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.

22.2 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 such a review should be conducted. This should 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 then the company should be advised.