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GUIDELINES ON THE MANAGEMENT OF THE TRUST FUND SURPLUS OF PRE-NEED COMPANIES

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Section 1. Mandate and Objectives

Pursuant to Section 6(k)[1], Section 30 (paragraph 2)[2] and Section 47[3] of Republic Act No 9829, otherwise known as Pre-Need Code of the Philippines, the Insurance Commission issues these Guidelines on the Management of the Trust Fund Surplus of Pre-Need Companies for the following objectives:

a) To govern the management and administration of the Trust Fund established for the payment of pre-need benefits under plan contracts; and
b) To provide an updated and more flexible choice of investments for the Net Surplus Fund subject to rules and regulations that would ensure prudent investment management and protection of the interests of the Planholders, including the promotion of the sound, stable and sustainable growth of the pre-need industry as provided for in Section 2[4] of the Pre-Need Code.

Section 2. Definition of Terms

Whenever used in these Guidelines, the following terms shall have the respective meanings hereafter set forth or indicated, unless the context requires otherwise:

a. **Trust Fund** refers to a fund set up from the planholders' payments to pay for the cost of benefits and services, termination values payable to planholders and other costs necessary to ensure the delivery of benefits or services to planholders as provided for in the contracts.[5]

b. **Pre-Need Reserve Liability (PRL)** refers to the measure of the liabilities of the pre-need company for its in-force plans and lapsed plans as of valuation date[6] , computed by an accredited actuary using the prescribed applicable discount rates.

c. **Trust Fund Surplus** refers to the excess of the net asset value in the trust fund over the pre-need reserve liability. The net asset value is the Trust Fund balance at time of valuation. The net asset value is also referred to as Trust

Fund Equity.

d. **Pre-Need Benefits** refer to the payment of a monetary consideration and/or performance of future services which the pre-need company undertakes to deliver either to the planholder or his beneficiary at the time of actual need or agreed maturity date, as specified in the pre-need plan.[7]

e. **Closed Accounts** refer to pre-need plans where the liabilities therein have already been paid or extinguished. They shall include but not limited to the following:

   i. Matured Plans[8]
   ii. Terminated Plans[9]
   iii. Foreclosed Plans
   iv. Early or Lump Sum Availed Plans v. Cancelled Plans[10]

f. **Provision for Adverse Deviation (PfAD)** refers to a generally accepted accounting principle developed based on assumptions that are reasonably conservative and that include provision for the risk of adverse (unfavorable) deviation from such assumptions (mortality, interests, withdrawals, and expenses). A provision for the risk of adverse deviation implies that appropriate degrees of conservatism have been considered in determining actuarial assumptions that are reasonable and realistic.[11]

   This provision is a fund equal to 10% of the preneed reserve liability that will be added in the Trust Fund Equity. The 10% PAD was derived from the Actuarial assumption of any 1% deviation from the investment earning interest rate equivalent to 10% of liability.

g. **Excess Liability Reserve for Closed Accounts (ELR)** refers to the excess of the Pre Need Reserve Liability (PRL) over the actual benefit/cost paid for closed accounts.

h. **Net Surplus Fund** refers to the difference between the trust fund surplus and the sum of the Provision for Adverse Deviation (PfAD) and the excess liability reserve.

Section 3. Determination of the Trust Fund Surplus

The net asset value in the trust fund shall be at least equal to the required Pre-Need Reserve Liability (PRL) as determined by an accredited actuary.

The PRL shall be computed in accordance with the prescribed applicable rate at the time of valuation.

The Trust Fund Surplus is determined as follows: