



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



PRESS RELEASE

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COMMISSIONER FUNA LAUDS PHILPLANS, INC. FOR IMPLEMENTATION OF 6% INTEREST RATE FOR VALUATION OF RESERVES

Insurance Commissioner Dennis B. Funa lauded PhilPlans, Inc. for its early implementation of the lowest discount rate provided under the Insurance Commission's Circular Letter on the valuation of transitory pre-need reserves.

Under Circular Letter No. 23-2012, the Insurance Commission provided for a regulatory leeway in the computation of pre-need reserves for the old basket of plans previously approved by the Securities and Exchange Commission.

The purpose of pre-need reserves is to assure the investing public that there will be adequate funds to pay for all future maturities and benefits.

As a regulatory leeway, the Insurance Commission provided for a graduated interest rate for the year 2012 onwards to be used in the computation of pre-need reserves for the old basket of plans.

The discount interest rate that shall be used in valuation of pre-need reserves shall not exceed the lower of the attainable rates as certified by the Trustee and the following rates: 8% for years 2012-2016; 7.25% for year 2017; 6.5% for year 2018; and 6% for years 2019 and onwards.

Recently, the Board of Directors of Philplans has approved the use of the discount rate of 6% in valuing its pre-need reserves.

Commissioner Funa said, "Philplans decided to use the 6% rate as early as this year since, based on the records they submitted, the company has more than enough reserves to absorb the increase in additional reserve requirement. Thus, Philplans is willing to take a one-time hit and adjust the discount rate essentially to 6%."

According to Commissioner Funa, "Adopting a lower discount rate would mean that a pre-need company is required to set aside a higher amount of reserves."

Commissioner Funa clarified that "While the early adoption of this conservative approach to valuation has reduced the surplus assets of PhilPlans, according to the company, their assets continue to be healthy and the surplus now stands at Php 4.4 billion at a discount interest rate of 6%. The actuarial liability of PhilPlans today is Php 33.2 billion while its assets stand at Php 37.6 billion."

Under the Pre-Need Code, preneed companies are required to set aside certain amounts in their trust funds to pay for future liabilities. By its very nature, amounts put in the trust fund should be used mainly for this purpose.

“With a business based on trust and stability and the assurance that it will be there to pay benefits as they arise, preneed organizations that set aside more give the buying public better assurance that it will be there to settle its obligations. This is why the decision to value its business at 6 % gives the public the assurance that Philplans will be there to serve its planholders in the future,” Commissioner Funa said.

He added, “The preneed industry has in place several regulations that will ensure the stability of the industry. These regulations will help the industry grow and expand and ensures that they offer viable financial products to its clients.”


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