

# Greystone Consulting

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The Directors  
Manchester Unity Friendly Society  
PO Box 5083  
Wellington

Dear Directors

## **Manchester Unity Friendly Society FAB Policies and IAB Policies Conversion Values**

The purpose of this letter is to:

- a) describe the methodology and assumptions used to calculate the values for the conversion of Society members' insurance policy interests in the Funeral Assistance Benefit Fund and the Increased Funeral Benefit Fund (collectively the "FAB") and the Increasing Assurance Benefit Fund (the "IAB") members' benefits to Fraternal Bond values ("Conversion Values") as at the Fraternal Bond issue date which is expect to on or around 20 April 2023 (the "Expected Conversion Date");
- b) comment on the approach used to calculate the cash out values for Society members' insurance policy interests in the FAB Fund or IAB Fund (as applicable) as at the Expected Conversion Date; and
- c) provide certain consents as set out later in this letter.

The terms in used in this letter (which are not otherwise defined in this letter) have the same meaning as those terms in the Fraternal Bonds product disclosure statement ("PDS").

## **Methodology for calculating Conversion Value**

I have calculated the Conversion Values to be equal to the value of the Society's current liability under, and the Policyholder's current interest in, their Policy or Policies as at the Expected Conversion Date. These amounts represent each Policyholder's share of the FAB Fund and/or IAB Fund (as applicable).

The methodology I used to calculate the Conversion Values (which will form the principal values of the Fraternal Bonds offered to Policyholders) was to use the total values of the IAB Fund and the FAB Fund at 31 May 2022. These represent the members' interests in the Society in respect of these policies. (Apart from allowing for deaths/maturities and a very small amount of premium over the period this will be the same values of the funds as at the conversion date). These were allocated to members in accordance with the liabilities for their benefits, including expected future distributions of surplus from the Funds.

The calculation of these liabilities allowed for the following assumptions:

- the Policyholder's gender, age, life expectancy, current benefit level, likelihood of discontinuing, and the type of Policy; and
- a discount rate of future appropriations that could be expected to have been added to the Policy liability (if it had remained in force) over the expected term of that Policy.

I consider this methodology to be consistent with normal actuarial practice.

## **Assumptions**

Below I set out a brief description of the assumptions I applied and how they were derived. Note that the rate of future appropriation has the most significant effect on the distribution of the Funds as a whole.

These assumptions, which I consider are robust and appropriate assumptions on which to base the Conversion Value calculations, were derived as at 31 May 2022.

### ***Future appropriation rate***

I used a rate of 4% per annum. This is higher than the rate of 1% per annum which was used for the 30 November 2021 half year financial statements. This is mainly due to the rise in interest rates since that time.

In setting the appropriation rate, the Society's policy is to distribute all realised income, less the expenses of the Society. I have therefore made assumptions about the expected long

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term returns on the various forms of investments and the expected expenses of the Society to obtain this rate. The numbers on which these assumptions are based are consistent with those considered in the context of the Society's 31 May 2022 audited financial statements, and which have also been reviewed by the auditor's actuary.

The Society also arranged for the reasonableness of these assumptions to be tested by an independent actuary, who has confirmed to the Society that the assumptions are reasonable for an actuarial valuation of this type. He has also checked a sample of Policy calculations with which he has agreed.

The 4% assumed future appropriation rate is solely an assumption for the purposes of calculating the Conversion Value of the Policies only. It is not related to, or in any way indicative of, the returns that may be received on the Fraternal Bonds by way of interest.

## ***Mortality***

The rates at which members are expected to die are by reference to standard tables of mortality rates.

The tables used were:

IAB	New Zealand Insured Lives table 2005 – 2007
FAB	New Zealand Life Tables 2017 – 2019 total population

The actual experience is analysed each year to test whether the tables are appropriate and in some years adjustments are made.

## ***Expenses***

The expenses were assumed consistent with the rules for management transfers from the IAB Fund or FAB Fund (as applicable). These were, for both IAB and FAB, 10% contributions plus 0.1% of Funeral Benefits/Sums Assured paid.

## ***Discontinuance***

The assumed rates of discontinuance were determined based on the actual experience of the IAB Fund or FAB Fund (as applicable). These were 1.3% per annum for the IAB and 0.6% per annum for the FAB.

## ***Future surplus distributions***

Both Funds have a surplus in the Fund after carrying out the calculations described above without allowing for future bonus additions. This surplus is part of the members' interest in the

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Funds and would have been expected to be distributed over time as reversionary bonuses or surplus additions. I have therefore allowed in the calculation for future reversionary bonuses and surplus additions. For the IAB, I have used an expected future bonus rate of 1.80% sum assured and 3.59% of reversionary bonus per year. For the FAB, I have used an expected future surplus addition of 0.28% of the Funeral Fund and 0.56% of the Increased Funeral Fund. On the assumptions used these will use all of the IAB and FAB Funds' surplus.

### **Date of Calculation**

The Expected Conversion Date is over 9 months after the date at which the Conversion Values were calculated. I consider it appropriate to use these Conversion Values for the following reasons:

- The date of calculation is the last year end before the Expected Conversion Date. It is preferable for the calculations to be carried out at a year end as the data and related calculations are audited.
- The totals of the Conversion Values were the Fund values. While both the totals of the Conversion Values and the Fund values have changed since 31 May 2022, due to members' deaths, maturities, and other exits, the totals of the Conversion Values are still very close to the Fund values – a variation of less than 0.25% in each case.
- The expected returns on the various forms of investments have not changed sufficiently for me to assume a different future appropriation rate.

### **Methodology for calculating Cash Out Values**

The cash out values of Members IAB and FAB policies on the Expected Conversion Date have been derived by the Society by applying an actuarially determined discount to the insurance benefit payable on death or maturity of the Policy, taking into account the Policyholder's age, benefit level, the type of Policy and number of years the Policy has been held, amongst other actuarial principles.

I consider this methodology to be consistent with normal actuarial practice.

### **Consents**

I understand that the information in this letter is to inform members and to assist members holding FAB insurance policies and IAB insurance policies about the process and methodology applied to calculate the Conversion Values, and the cash out values, of their FAB and IAB insurance policies, to assist in making their decision. Therefore, I consent to:

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- (a) statements made in the PDS and in the corresponding Registry Entry (including in the Terms Comparison document), relating to the actuarial calculation of the conversion values (principal amounts) of the Fraternal Bonds, and the alternative cash out option;
- (b) statements relating to other matters expressed in the PDS or Register Entry as being based on, or as having been calculated by, the Actuary being included in the PDS or Register Entry in the form and context in which they are included; and
- (c) this letter, including the statements made in this letter, being included in the Disclose Register entry with respect to the Society's offer of Fraternal Bonds in the form and context in which it is included.

Yours sincerely



Charles Cahn FIAA, FNZSA  
Appointed Actuary