FOURTH SCHEDULE.

STATEMENT RESPECTING THE VALUATION OF THE LIABILITIES UNDER LIFE POLICIES AND ANNUITIES OF THE GOVERNMENT INSURANCE DEPARTMENT, MADE BY THE ACTUARY.

I.

THE date up to which the valuation was made was the 31st December, 1896.

II.

The principles upon which the valuation and distribution of profits were made were as follows:—

(1.) *Principles of Valuation.*—The valuation has been made upon a strictly "net premium" basis; in other words, no credit whatever has been taken for any extra premiums or loadings, the net premiums alone having been valued for inclusion amongst the assets. The liability has been ascertained by taking the difference between the present value of the sums assured (including reversionary bonuses) and the present value of the net premiums (derived from the Institute of Actuaries H^M Table with 4 per cent. interest). Where the original premiums have been reduced by the application of amounts received in consideration of the surrender of bonuses or former policies the present values of such reductions have been added to the liability. In all cases where an extra premium was payable the policy has been valued at the true age, and a full proportion has been reserved for the unexpired risk for which the extra premium had been paid. Adequate extra reserves have been made for limited-premium policies and the immediate payment of claims, and allowance has been made for the actual incidence of the premium income. Reserves have been made for Children's Endowments, Investments, and Deferred Annuities equivalent to the premiums paid accumulated at 4 per cent. Immediate Annuities on single lives have been valued by the English Government Annuitants Mortality Experience (1884), with 4 per cent. interest, and joint-and-survivorship and reversionary annuities by the Carlisle Table, also with 4 per cent. interest. In the case of annuity-assurances the value at age 60 of the annuity has been computed by the 1884 English Annuitants Experience and treated as an endowment payable at age 60, which has then been valued, in combination with the insurance portion of the contract, by the Institute H^M Table, with 4 per cent. interest.

All policies have been valued separately in duplicate, and also in groups where practicable.

From the gross surplus which resulted from the application of the foregoing principles a special reserve has been made, in view of the probable necessity for reducing the rate of interest in future valuations. The effect of this special reserve is to place the Department in a position to satisfy the requirements of a net premium valuation upon an interest basis of $3\frac{5}{8}$ per cent.

The balance has been treated as divisible surplus, and allotted amongst the policyholders in the manner described in the next section.