

11/02/2022

## Statement of Actuarial Opinion

[REDACTED] Policy [REDACTED]

### To Whom It May Concern:

I, Rajiv Rebello, FSA, CERA have been retained as an actuarial consultant to review the [REDACTED] Policy [REDACTED] on behalf of the policy owner. As of 3/28/2022, the policy entered the grace period, and a grace notice (Exhibit A) was sent to the policyowner. On checking the validity of the grace notice, it was observed that the grace amounts provided were not in accordance with the policy contract. It was also observed that in the previous policy year, there was a higher-than-required COI charge deducted from the Account Value, causing the Account Value to be lower than what it should have been which in turn led [REDACTED] to send a grace notice that was in excess of the terms specified in the policy contract.

Following is a detailed explanation of our observations:

1. **Higher-than-required COI charge deduction in year 13:** It was observed that in the policy year 2020-21 (or policy year 13), there was a higher-than-required COI deduction that took place for the month 4/28/2021 of the amount \$108,186 (see Exhibit C) when that amount should have been approx. \$104,153 according to our calculation, i.e., a difference of approximately \$4,133. This caused the Account Value at the end of the year (i.e., 12/28/2021) according to the carrier's calculation to be lower at \$89,071 than Colva's calculated value at that time of \$93,395.

Going forward, Colva's calculated Account Value has been used as a basis to assess the validity of the grace notice (Exhibit A) as this is the correct value that the carrier should have arrived at.

2. **Policy goes into grace on 3/28/2022:** According to our calculations, on 3/28/2022, the Cash Surrender Value (CSV) goes negative after the COI is deducted on this date. Hence, the policy would enter grace. This is in line with the Grace Notice (Exhibit A) which states that the policy went into grace on 3/28/2022 since the CSV was not sufficient to cover the COI deduction on this date.
3. **The grace notice provides two grace amounts both of which were in excess of what was needed to keep the policy in force:** The grace notice (Exhibit A) provides two grace amounts - \$116,177.96 providing coverage till 4/27/2022 and \$407,572.51 providing coverage till 6/27/2022 - that can be paid no later than 5/30/2022.

However, these amounts were higher than they needed to be. For instance, the minimum premium required to keep the policy in force until 4/27/2022 was \$109,814. And the minimum premium required to keep the policy in force until 6/27/2022 was \$386,212.

4. **Grace period of 60 days:** According to the policy contract (Exhibit B), when the CSV goes negative, the policy enters a grace period of 60 days, or 2 months. This implies that the grace amount should cover 2 months' deductions. Therefore, in the context of the grace notice as of 3/28/2022 (Exhibit A), while the grace period is 60 days or until 5/30/2022, the grace amount



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(P): [REDACTED]

specified should have ideally been \$248,013 which covers 2 months' deductions (3/28 & 4/28). The grace notice, however, provided grace amounts that covered 1 month's and 3 months' deductions as explained in point 3.

In conclusion, the carrier incorrectly assessed a higher COI charge in year 13 on 4/28/2021 causing the Account Value to be lower. Using instead the higher Account Value that Colva correctly calculated as the basis, it was observed that the policy did go into grace on 3/28 after that month's deduction, but the grace amounts provided were high relative to the 1 month's and 3 months' deductions they were intended to cover. Moreover, the grace notice should have provided a grace amount that covered 2 months' deductions since the grace period was 60 days, or 2 months.

#### **List of Exhibits Referenced**

Exhibit A: ExhibitA\_GraceNotice\_20220428.pdf

Exhibit B: ExhibitB\_PolicyCopy.pdf

Exhibit C: ExhibitC\_AnnualStatement\_2020-2021.pdf

Sincerely,

[REDACTED]

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