

Conversion Project

Frequently Asked Questions (FAQs) for policyholders

December 2021

IMPORTANT NOTICE: We are not currently seeking any commitments to convert interests in the FAB and IAB Funds, and no additional contributions are being sought. No debt securities can currently be applied for or acquired. If the Conversion occurs, debt securities will be made available in accordance with the Financial Markets Conduct Act 2013.

Questions about Conversion

1 In general, how will Conversion affect me?

When Conversion is implemented, all your interest in the existing Society's Funeral Assistance Benefit (**FAB**) and Increasing Assurance Benefit (**IAB**) Funds, which provided insured benefits, will convert into debt securities issued by the Society.

2 What is a debt security?

A debt security is a right to be repaid money or paid interest on money that is deposited with or lent to or otherwise owing by another person. In this instance, the Society will end up owing you the conversion amount, on terms that will be set out in a product disclosure statement or PDS.

3 Will my existing Share Fund Funeral Benefit be affected by Conversion?

No. Any Share Fund Funeral Benefit you have will not be affected by Conversion.

4 Why are you converting my interest in the FAB and IAB Funds?

With increased regulatory pressures/costs combined with the current low-interest rates and lack of appropriations to policyholders, the MUFS Board was tasked at the 2020 Special Conference to investigate converting the FAB and IAB Funds, and for the Society to stop being an insurer. At the 2020 Special Conference, it was agreed that leaving things as they are is unlikely to be in the best interests of policyholders. At the 2021 Movable Conference, there was an overwhelming majority vote in favour of implementing the Conversion proposal.

5 Why didn't you convert my interest in FAB and IAB funds into share funds?

Investigations revealed that the debt securities solution is the most appropriate instrument available for converting FAB/IAB under the prevailing regulatory environment. We have therefore proposed the debt securities solution. Given the nature of policyholder interests in FAB and IAB Funds, converting them into interests in share funds is not an option legally available to us.

6 Does this mean that I will be given an interest in a brand-new fund?

No. The debt security will be funded from the same Fund you currently stand to benefit from. When Conversion goes ahead, your existing interest in the FAB and IAB Funds will be varied from an interest as a policyholder in an insured benefit to a debt security holder.

7 When will Conversion occur?

With the decision being made at the 2021 Movable Conference to implement Conversion, and subject to subsequent approval from regulatory authorities, we expect that Conversion will occur on 31 May 2022 (Conversion date).

8 Will I still receive a funeral benefit?

Yes. You will receive it through a different vehicle. You will get it as a payout of your debt security rather than an IAB/FAB insurance benefit.

9 Will Conversion alter the FAB/IAB amount I stand to receive on death or maturity?

Yes. We are working with our actuary and auditor to ensure current interests in the FAB and IAB Funds are converted to appropriately-valued interests in debt securities as at the Conversion date.

10 Will the amount on my FAB certificate be the amount paid upon my death?

Yes – if your death occurs before the Conversion date, your estate will receive the amount on your FAB certificate.

No – if your death occurs after the Conversion date, your estate will receive the conversion amount plus any future appropriations, and any amount in the new Benevolent Benefit Fund.

11 If I pass away before the date Conversion occurs, will you pay the contracted amount of my IAB and FAB policies?

Yes.

12 Can I be paid my benefit in the FAB and IAB Funds instead of having my benefit converted into debt securities?

No. The Conversion proposal does not provide an ability to get paid out any earlier than the existing FAB and IAB terms permit.

13 Can I withdraw my benefit before the conversion date?

Under current terms, IAB policyholders can withdraw their benefits at their surrender values; FAB policyholders cannot withdraw their benefits.

14 Why is the FAB and IAB benefit amount in my latest certificate of benefit not appearing in the statement attached to the letter that I have received?

Conversion will vary your current interest in the FAB and IAB fund from an interest in an insured benefit to a debt security. Therefore, the FAB/IAB benefit amount noted in your latest certificate of benefit will no longer reflect your benefit amount once Conversion has been implemented.

Questions about the offer of debt securities

15 Can I acquire debt securities offered by the Society today?

No. We are not currently seeking any commitments to convert interests in the FAB and IAB Funds, and no additional contributions are being sought. At this stage, no debt securities can be applied for or acquired. If the Conversion proceeds as planned, debt securities will be made available in accordance with the Financial Markets Conduct Act 2013 on or after 31 May 2022.

16 How will the value of my debt securities be calculated?

The value of the debt securities you will receive upon Conversion will be calculated by our actuary, in accordance with the methodology the actuary considers the most appropriate to ensure you receive fair value for your current interest in the FAB and IAB Funds.

17 Who calculates the conversion amount?

Conversion amounts are calculated by the actuary.

18 So what will be the Conversion calculation methodology?

The actuary will calculate the interest you will receive from the Conversion of your current interest based on your gender, age, current benefit level, and the type of policy you hold. The methodology should result, on average, in you receiving an interest that is likely to provide you with a benefit like the current value of your death or maturity benefit. That calculation allows for the fact that premiums will no longer be payable from the Conversion date, and the estimated benefit is subject to rates of mortality, rates of voluntary discontinuance, and appropriation rates ending up being in line with the assumptions made. The total conversion amount will be based on the amount of the best estimate valuation calculated for each policyholder. It should therefore be financially neutral to the Society and, on average, financially neutral to policyholders. "Financially neutral" means that the conversion amount credited now, together with future appropriations, is expected in total to come out at an amount similar to the death or maturity benefit.

19 Will I receive reporting about my debt securities?

Yes. Under the Financial Markets Conduct Act 2013, we will be required to carry out regular reporting to you.

20 I currently receive an annual statement of my fund balance for the year ending 31 May. Will I still receive an annual statement of my fund balance when Conversion occurs?

Yes. You will receive an annual statement of the value of your debt securities. We will work with the Financial Markets Authority to settle the reporting period, method and frequency of any reports.

- 21 Will the amount of my debt securities be the same amount shown on my annual statement for the FAB and IAB Funds?**
No. When Conversion occurs, the value of your debt securities will be calculated per the methodology outlined above. That value will appear on your annual statement.
- 22 Are the conversion amounts on my latest statements the final amounts that will convert to debt securities on the conversion date?**
No. All amounts on your conversion statements are based on estimates as at the date noted on the statement. Your final conversion amount may vary from that and be confirmed upon valuation on the Conversion date of 31 May 2022.
- 23 Will I receive an initial statement of my debt securities upon Conversion?**
Yes.
- 24 When can my estate obtain my benefit in the debt securities?**
Like your current interest in the FAB and IAB Funds, following Conversion your debt securities will be paid out on your death or maturity.
We also intend to maintain the arrangement currently in place that if you are over the age of 75 years and your spouse or partner dies, you can obtain a payout of your benefit within three months of their death to assist with their funeral costs.
- 25 What will be the process for obtaining my benefit in the debt securities?**
The process will likely be similar to the current administrative process for obtaining your benefit in the FAB and IAB Funds.
- 26 Will I need to continue to pay contributions after Conversion takes place?**
No. Contributions will no longer be required from you once your existing interests in the IAB and FAB funds are converted to debt securities. However, you will still need to pay membership fees.
- 27 I am not paying contributions to my FAB and or IAB policies currently or won't be paying contributions in the future. How does that affect my conversion amount?**
The actuary's methodology will calculate the conversion amount you will receive from the Conversion based on a number of factors, including your current benefit level, contributions profile and the type of policy you hold. The actual conversion amount credited to you will reflect all contributions made to the date the Conversion occurs.
- 28 After Conversion occurs, will my endowment IAB policy be paid out on its contracted date?**
Yes, since your interest in the endowment IAB policy will be converted to debt securities, you will be paid the conversion amount plus any future appropriations, being in the form of interest, on its contracted date.
- 29 Can I surrender my IAB policy after the Conversion date?**
No. After Conversion, your interest in the IAB policy will change to debt securities and will be locked in until either death or maturity date. You can claim the surrender value on your IAB policy up to the date of Conversion.
- 30 Can I surrender my IAB policy now?**
Yes. You can surrender your IAB policy and receive the calculated surrender value any time before the Conversion date.
- 31 With Conversion going ahead, when will my whole-of-life IAB policy be paid out and how much will be paid out?**
We will pay out the conversion amount of your whole-of-life IAB policy, plus any future appropriations in the form of interest, upon your death.
- 32 Will my whole-of-life IAB policy be paid out on its contracted amount if I die before Conversion?**
Yes. If you pass away before the Conversion date, your whole-of-life IAB policy will be paid out at the contracted amount.
- 33 Why is my FAB/IAB estimated conversion amount on the statement lower than the 'Sum Assured and Accumulated Bonuses' on my FAB/IAB certificate?**

Your Sum Assured and Accumulated Bonuses are benefits payable upon the occurrence of a future event being your death or maturity of your policy for endowment policies. The estimated conversion amount noted in your statement is the amount calculated as the estimated value of your debt securities on the Conversion date. The estimated conversion amount will always be lower than your Sum Assured and Accumulated Bonuses as it takes into account expected future appropriations to your debt securities and the fact you won't be paying premiums in the future. The estimated conversion amount plus future appropriations is expected in total to come out at an amount similar to the death or maturity benefit you have currently,.

34 Why is the FAB/IAB estimated conversion amount on my statement dated 31 May 2021 lower than the amount appearing on my statement dated 30 November 2020?

The actuary's calculation on 31 May 2021 uses different interest rates compared to the 30 November 2020 valuation. Your statement notes that all amounts are estimates based on valuations on the respective dates. Please note that your final amount may vary, and will be confirmed upon valuation on the conversion date of 31 May 2022.

35 Do we need any regulatory approvals or licensing to proceed with the Conversion?

Yes. As part of the process, we will need to become a debt security issuer under the Financial Markets Conduct Act 2013 and no longer require an insurer licence from the Reserve Bank of New Zealand. We are liaising with both the Reserve Bank and the Financial Markets Authority for direction and approvals.

36 Is the regulatory approval of Conversion assured?

No. Conversion is complex, and we will mitigate this risk by working with our professional advisors when engaging with the regulators. Regulators may make their own determination and impose requirements not considered by our advisers.

37 What are the one-off costs for implementing Conversion, and the ongoing costs?

The one-off costs are borne by Society and do not impact your conversion amount's initial value. The one-off cost categories are consultation process, professional advice, conversion implementation and new structure establishment. A number of factors will influence the final amount, including actual costs incurred in registering a product disclosure statement, professional service fees, statutory supervisory fees, etc.

Ongoing costs of managing the debt security will be borne by the Society as part of its usual operations. There will be five ongoing cost components – legal compliance, statutory supervisor, financial reporting, investment management, and FMA levies. Based on the estimates available, the Society is confident of achieving lower ongoing costs than if it remained as an insurer.

Questions about the decision-making process

38 Where are we in the decision-making process for the Conversion project?

The Conversion project is split into three phases. In the first phase before the 2020 Special Conference, we conducted a preliminary investigation into the Conversion project. A feasibility report was presented to the attendees of the 2020 Special Conference, and the attendees voted to authorise the initiation of the second stage. The second stage involved developing the updated proposal for policyholders and preparing the remit for the 2021 Movable Conference. We are now in the third and final phase where we proceed with implementing the Conversion. The decision to proceed with implementation was made at the 2021 Movable Conference.

39 What occurred during the development phase in 2021?

FAB and IAB policyholders received a letter in March 2021 containing the initial Conversion proposal. A consultation process allowed for further information and feedback opportunities through our website, the Outreach Programme, and contact centre.

A second letter was sent to all policyholders in September 2021. It contained information on the improvements made to the initial Conversion proposal in light of feedback received during the consultation process. The letter encouraged all recipients to attend their Lodge meeting to inform the Lodge Deputy on how to vote at the 2021 Movable Conference.

At the 2021 Movable Conference, a majority of over 92% of votes were in favour of implementing Conversion. The Society is now taking the necessary steps to implement Conversion, and will continue to do so over 2022.

40 What happened to the feedback form and comments that I sent you?

Your feedback form and comments helped us consider your concerns about the initial Conversion proposal. We have made improvements to the initial proposal as a result.

41 Who should I contact if I have questions about Conversion?

You should always call your Fraternal Administrator/Financial Secretary in the first instance if you have any questions. Your Fraternal Administrator will be in the best position to answer any questions you have and will have the most on-hand information about your particular Lodge.

42 Were the votes cast in the 2020 Special Conference binding at the 2021 Movable Conference?

No. The attendees at the two conferences voted on different phases of the Conversion project.

43 When did the voting occur to decide on implementing Conversion?

Deputies at the 2021 Movable Conference voted on the Conversion remit. A majority of over 92% of the voting results gave us a yes to proceed with implementing Conversion.

44 How did the Deputies vote at the 2021 Movable Conference?

A majority of Deputies voted in favour of implementing Conversion, with their 'yes' votes making up over 92% of the total votes.

45 What happens now that 2021 Movable Conference approved Conversion?

We are now working through the third and final phase of the Conversion project. During this phase, we will be carrying out the necessary work to complete regulatory formalities, appoint an independent statutory supervisor to oversee the operation of the debt securities, and convert policyholder interests in the FAB and IAB Funds into debt securities.

46 What would have happened if the 2021 Movable Conference voted against Conversion?

Existing FAB/IAB would have continued, as would have all other insurance benefits of Sick Fund, ESP, Funeral Plan and Medical insurance. It would have been business as usual and the Society will have continued to be a licensed insurer.

Questions about the one-off capital appropriations and other consultation themes

47 I have been a loyal member for many years, how will the Society recognise my loyalty through the Conversion project?

The Society will allocate a one-off capital appropriation of reserves, of \$10 million, for FAB/IAB policyholders who convert at the Conversion Date, using 'total years a policyholder has held a benefit in each FAB and IAB up to the Conversion date' as the basis for the appropriation amount. The appropriation will occur after the Society ceases to be a licensed insurer. In practical terms, it could happen at any time after the Conversion date. The allocation would be subject to the Society satisfying the relevant regulatory requirements.

48 If I pass away before Conversion goes ahead, do I get my allocation of the one-off capital appropriation of reserves?

No. The appropriation will occur after the Society ceases to be a licensed insurer, which will be after the Conversion date.

49 What is the eligibility criteria for Conversion into debt securities?

All existing FAB & IAB policyholders shall be eligible to convert their interests into debt securities - this is the sole criteria.

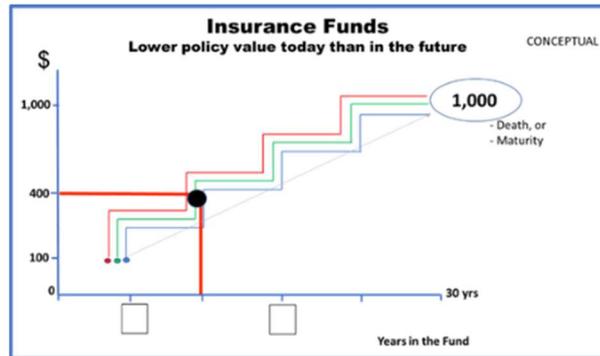
50 How will the new debt securities structure generate a better surplus?

With the insurer licence removed, the Society believes there is a higher likelihood to invest for higher returns while remaining within prudent investment policy thresholds.

51 What is an actuarial calculation?

Currently, your FAB & IAB benefit will give a benefit value to you at a future time – death or maturity.

The actuary calculates what that value will be worth at the Conversion date. The actuary uses a method called the time value of money. The graph below illustrates that under that calculation, values at the Conversion date will always be lower.



52 Why does the Conversion amounts differ for policyholders who have been in the Fund for the same amount of time?

The actuary's calculations are based on the exact date of joining the Fund. The actuary's calculation also tracks policyholders who have taken a contribution holiday. So, the calculated amounts may differ even if they've joined in the same year or month.

53 Will the Society continue to invest prudently ?

Yes, the Society expects to continue its existing practice of prudent investing.

Information about the key updates to the proposed Conversion can be found here:

54 For a summary of what came out of the consultation, please see the document "Conversion – Consultation feedback – Results, Themes and Improvements.pdf" attached to our website's Conversion page.