

## MEMORANDUM

**To:** Members in the pension area

**From:** Steven W. Easson, Chair  
Actuarial Guidance Council

Jared Mickall, Chair  
Committee on Pension Plan Financial Reporting

**Date:** January 22, 2021

**Subject:** **UPDATE – Preliminary Communication for Assumptions for Hypothetical Wind-Up and Solvency Valuations with Effective Dates on or after December 31, 2020 (but no later than December 30, 2021) – Actuarial Guidance Council Approval**

*Document 221013*

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The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in the [preliminary communication](#) dated January 19, 2021. **This update confirms Actuarial Guidance Council (AGC) approval of this communication with no revisions.**

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at December 31, 2020, and has determined guidance regarding assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after December 31, 2020 (but no later than December 30, 2021).

In order to provide timely information to actuaries, the AGC approved the guidance provided in the [preliminary communication](#) which is summarized in this memorandum. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents*, this updated preliminary communication has been prepared by the PPFRC and has received final approval for distribution by the AGC on January 21, 2021.

The guidance summarized in this memorandum may be relied upon by actuaries in their work, pending the publication of any further guidance or other evidence of a change in annuity pricing. **Final guidance, when approved, will be published in the form of an educational note, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.**

### **Guidance as at December 31, 2020**

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity of duration 8.9 to 14.3, or a fully consumer price index (CPI)-indexed annuity (prior to any adjustment for sub- or super-standard mortality), would be consistent with the [educational note](#) issued on April 24, 2020, with the exception of revisions to applicable durations and/or spreads as outlined in the following table (recent guidance is

shown for comparison).

Educational note/ supplement	Mortality table <sup>1</sup>	Non-indexed immediate and deferred pensions <i>Duration<sup>2</sup>: Spread relative to unadjusted CANSIM V39062</i>			Fully CPI-indexed pensions <i>Spread relative to unadjusted CANSIM V39057</i>
		Low duration	Medium duration	High duration	All durations
Dec 31, 2020	CPM2014Proj	8.9: + 120 bps	11.6: + 140 bps	14.3: + 150 bps	- 50 bps
<a href="#">Sep 30, 2020</a>	CPM2014Proj	8.9: + 130 bps	11.6: + 150 bps	14.3: + 160 bps	- 50 bps
<a href="#">Jun 30, 2020</a>	CPM2014Proj	8.8: + 140 bps	11.6: + 160 bps	14.3: + 170 bps	- 50 bps
<a href="#">Apr 30, 2020</a>	CPM2014Proj	8.9: + 130 bps	11.7: + 140 bps	14.5: + 150 bps	- 70 bps
<a href="#">Mar 31, 2020</a>	CPM2014Proj	8.7: + 150 bps	11.4: + 160 bps	13.9: + 170 bps	- 70 bps
<a href="#">Dec 31, 2019</a>	CPM2014Proj	8.6: + 110 bps	11.2: + 120 bps	13.7: + 120 bps	- 70 bps

#### Other guidance for non-indexed pensions

The PPFRC has been monitoring the spreads for groups of very low duration annuities (i.e., those below the low duration indicated in the table above). As at December 31, 2020, the PPFRC continues to believe that a reasonable approach to derive the spread for very low duration annuities is to extrapolate downwards from the spreads at the low and medium durations. Other approaches may also be reasonable.

The PPFRC has been monitoring the spreads for groups with durations higher than the high duration listed in the table above and has observed that these spreads are likely to be less than the spreads indicated at the high duration block. As at December 31, 2020, the PPFRC believes that a reasonable approach to derive the spread for very high duration annuities is to extrapolate downwards from the spread at the high duration, assuming that the rate of decrease in spreads from the high duration will be the same as the rate of increase in spreads from the low duration to the high duration. Other approaches may also be reasonable.

<sup>1</sup> “CPM2014Proj” refers to the 2014 Canadian Pensioners’ Mortality Table (CPM2014), combined with mortality improvement scale CPM Improvement Scale B (CPM-B) with no adjustments for sub- or super-standard mortality.

<sup>2</sup> Duration is to be determined for the portion of the liabilities assumed to be settled through the purchase of annuities, based on the medium duration discount rate.