Canadian Institute of Actuaries / Institut canadien des actuaires

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: May 3, 2021

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

Document 221045

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 April 23, 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 March 31, 2021, and has determined guidance regarding assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after March 31, 2021 (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 May 3, 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 supplement, 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 March 31, 2021

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity 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 March 10, 2021, with the exception of revisions to applicable durations and/or spreads as outlined in the following table.

Educational note/ supplement	Mortality table[1]	**Non-indexed immediate and deferred pensions** *Duration[2]: Spread relative to unadjusted CANSIM V39062*			**Fully CPI-indexed pensions** *Spread relative to unadjusted CANSIM V39057*
		Low duration	**Medium duration**	**High duration**	**All durations**
Mar 31, 2021	CPM2014Proj	8.5: + 100 bps	11.1: + 120 bps	13.6: + 130 bps	- 50 bps
Dec 31, 2020	CPM2014Proj	8.9: + 120 bps	11.6: + 140 bps	14.3: + 150 bps	- 50 bps
Sep 30, 2020	CPM2014Proj	8.9: + 130 bps	11.6: + 150 bps	14.3: + 160 bps	- 50 bps
Jun 30, 2020	CPM2014Proj	8.8: + 140 bps	11.6: + 160 bps	14.3: + 170 bps	- 50 bps
Apr 30, 2020	CPM2014Proj	8.9: + 130 bps	11.7: + 140 bps	14.5: + 150 bps	- 70 bps
Mar 31, 2020	CPM2014Proj	8.7: + 150 bps	11.4: + 160 bps	13.9: + 170 bps	- 70 bps

Large plans

In light of a recent large transaction in the Canadian group annuity market the PPFRC is monitoring the capacity constraints for a single annuity purchase. The liability thresholds where a plan may have difficulty in effecting a single annuity purchase to settle its liabilities continue to be those described in the educational note issued on March 10, 2021. The PPFRC may adjust the applicable liability thresholds in future guidance.

[1] "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.

[2] 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.