MEMORANDUM

To: Members in the pension area

From: Jared Mickall, Chair
Committee on Pension Plan Financial Reporting

Date: January 19, 2021

Subject: **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)**

Document 221009

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 an *Educational note supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2020, and Applicable to Valuations with Effective Dates Between September 30, 2020 and December 30, 2020*, which was approved by the Actuarial Guidance Council (AGC) and issued on November 3, 2020.

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at December 31, 2020 and has decided on its recommendation to the AGC 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).

To provide timely information to actuaries, this memorandum summarizes the PPFRC's discount rate and mortality recommendations for estimating the cost of purchasing annuities. Actuaries are advised that this constitutes preliminary guidance only, as it is subject to AGC approval. History has shown that AGC members may propose alternatives, require additional analysis, submit additional data, and/or not necessarily approve PPFRC recommendations without adjustments.

Any work based on this preliminary guidance should be accompanied by appropriate caveats about its preliminary nature and potential for revision. Further, it would not be appropriate to use this preliminary guidance for the purpose of any formal reporting or regulatory filings, nor in any marketing capacity.

Preliminary Recommendation as at December 31, 2020

The PPFRC recommends to the AGC that the determination of 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.

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
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
Dec 31, 2019	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.

Final guidance, when approved, will be published in the form of an updated preliminary communication, and subsequently 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*.

[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.