Canadian Institute of Actuaries / Institut canadien des actuaires

Educational Note Supplement

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2021, and Applicable to Valuations with Effective Dates on or after December 31, 2021, and no later than December 30, 2022

Committee on Pension Plan Financial Reporting

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The actuary should be familiar with relevant other guidance. They expand or update the guidance provided in an educational note. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the other guidance describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, other guidance may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update other guidance.

MEMORANDUM

To: Members in the pension area

From: Steven W. Easson, Chair
Actuarial Guidance Council

Gus Van Helden, Chair
Committee on Pension Plan Financial Reporting

Date: January 18, 2022

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2021, and Applicable to Valuations with Effective Dates on or after December 31, 2021, and no later than December 30, 2022**

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 educational note supplement dated October 25, 2021. This guidance applied for valuations with effective dates on and after September 30, 2021 (but not later than December 30, 2021).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at December 31, 2021, and recommended to the Actuarial Guidance Council (AGC) assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after December 31, 2021 (but no later than December 30, 2022).

In order to provide timely information to actuaries, the AGC has approved the guidance 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 educational note supplement has been prepared by the PPFRC and has received final approval for distribution by the AGC on January 18, 2022.

Guidance as at December 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**
Dec 31, 2021	CPM2014Proj	8.7: + 100 bps	11.3: + 120 bps	13.9: + 120 bps	- 40 bps
Sep 30, 2021	CPM2014Proj	8.6: + 100 bps	11.1: + 120 bps	13.6: + 130 bps	- 50 bps
Jun 30, 2021	CPM2014Proj	8.6: + 100 bps	11.2: + 120 bps	13.7: + 130 bps	- 50 bps
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

Large plans

The PPFRC has been monitoring the capacity constraints for a single annuity purchase. As of June 30, 2021, the PPFRC revised the liability thresholds where a plan may have difficulty in effecting a single annuity purchase to settle its liabilities described in the educational note issued on March 10, 2021, as follows:

	Non-indexed annuities	**Indexed annuities**
June 30, 2021 onward	$1,000 million	$300 million
Dec 31, 2018, to June 29, 2021	$750 million	$250 million
Sep 2013 to Dec 30, 2018	$500 million	$200 million

Retroactive application

If an actuary has already prepared a report (e.g., funding valuation report, solvency or transfer ratio report) with an effective date on or after December 31, 2021, before the publication of this guidance, the actuary would consider paragraphs 1710.36 through 1710.43 of the *Standards of Practice* to determine whether it is necessary to withdraw or amend the report.

[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.

Additional details on this guidance 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*.

SWE, GVH