

Educational Note Supplement

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

Committee on Pension Plan Financial Reporting

April 2022

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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: April 25, 2022

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective March 31, 2022, and Applicable to Valuations with Effective Dates on or after March 31, 2022, 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](#) dated March 11, 2022. This guidance applied for valuations with effective dates on and after December 31, 2021 (but not later than December 30, 2022).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at March 31, 2022, and recommended to the Actuarial Guidance Council (AGC) assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after March 31, 2022 (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 April 25, 2022.

Guidance as at March 31, 2022

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 11, 2022, 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 <i>Duration²: 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
Mar 31, 2022	CPM2014Proj	8.2: + 120 bps	10.5: + 140 bps	12.8: + 140 bps	- 40 bps
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

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 March 31, 2022, 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.

Additional details on this guidance will be published in the form of an explanatory report, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.

SWE, GVH

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.