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## Educational Note Supplement

# Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective August 2011

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## Memorandum

**To:** All Pension Actuaries

**From:** Gavin Benjamin, Chair  
Committee on Pension Plan Financial Reporting

**Date:** September 8, 2011

**Subject:** **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-up and Solvency Valuations Update – August 2011**

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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 an [educational note](#) supplement dated June 7, 2011.

The June 7, 2011 guidance as to estimated purchase costs for non-indexed group annuities was partially based on quotes provided by six insurance companies on illustrative group annuities using pricing conditions as at March 31, 2011, and supplemented by data from certain actuarial consulting firms on actual group annuity purchases during the first and early second quarters of 2011.

In an effort to continue to monitor group annuity pricing, the PPFRC obtained illustrative quotes on a similar basis to those obtained at March 31, 2011, but based on pricing conditions as at June 30, 2011. The illustrative non-indexed quotations at March 31, 2011 and June 30, 2011 may be summarized as follows:

AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING UN94 GENERATIONAL MORTALITY TABLES)				
	Large Purchase		Small Purchase	
	31/03/2011	30/06/2011	31/03/2011	30/06/2011
<b>Retirees</b>				
• Discount rate	4.43%	4.05%	4.48%	4.12%
• Spread over CANSIM V39062	+0.73%	+0.56%	+0.78%	+0.63%
<b>Deferred vesteds</b>				
• Discount rate	4.50%	4.14%	4.48%	4.11%
• Spread over CANSIM V39062	+0.80%	+0.65%	+0.78%	+0.62%

If considered in isolation, the illustrative quotes suggest a decrease in the excess (spread) of the average of the discount rates for the insurers that provided the three most competitive quotes, in conjunction with the UP94 mortality table with generational projection (using improvement Scale AA), over the yield on Government of Canada (GoC) long-term bonds (series V39062). However, the June 7, 2011 guidance supplemented the March 31, 2011 illustrative quotes with data on recent actual annuity purchases and recommended a spread of 70 basis points (bps), which is slightly lower than the spread suggested solely based on the March 31, 2011 illustrative quotes.

The actual group annuity purchase data obtained by the PPFRC for the second and early third quarters of 2011 were very limited but, nonetheless, did not exhibit any pattern which caused the PPFRC to conclude that the June 7, 2011 guidance has become inappropriate. Accordingly, and given the relatively modest change in the spreads that may be suggested by the June 30, 2011 illustrative quotes, the PPFRC has decided that there is not sufficient evidence at this time to warrant changing the guidance provided in the June 7, 2011 educational note.

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