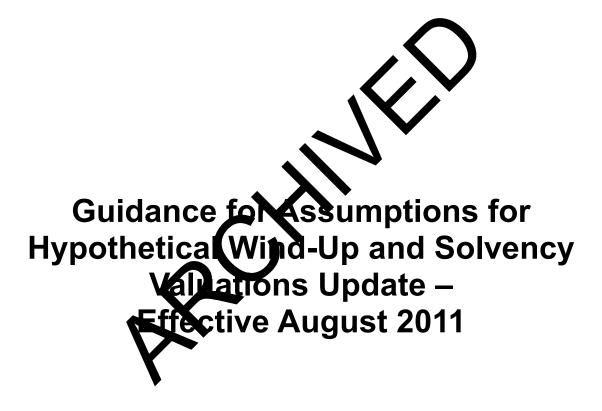


Institut canadien des actuaires

Educational Note Supplement



Document 211087

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Seeing Beyond Risk



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

Document 211087

The most recent guidance from the Committee on Pension ancial Reporting Plan F (PPFRC) regarding assumptions for hypothetical windand cy valuations was provided in an educational note supplement dated June

The June 7, 2011 guidance as to estimated purchase c -indexed group annuities sts was partially based on quotes provided by six essurance companies on illustrative group annuities using pricing conditions as at March 31, 2 and supplemented by data from certain actuarial consulting firms on actual group annuity purchases during the first and early second quarters of 2011.

nnuity pricing, the PPFRC obtained illustrative In an effort to continue to monitor quotes on a similar basis to these obtained at March 31, 2011, but based on pricing ne illustrative non-indexed quotations at March 31, 2011 conditions as at June 30, 2011. and June 30, 2011 may be can nat follows:

| AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING D. 4 GENERATIONAL MORTALITY TABLES) | | | | |
|--|----------------|------------|----------------|------------|
| | Large Purchase | | Small Purchase | |
| | 31/03/2011 | 30/06/2011 | 31/03/2011 | 30/06/2011 |
| Retirees | | | | |
| • Discount rate | 4.43% | 4.05% | 4.48% | 4.12% |
| • Spread over CANSIM V39062 | +0.73% | + 0.56% | +0.78% | + 0.63% |
| Deferred vesteds | | | | |
| • Discount rate | 4.50% | 4.14% | 4.48% | 4.11% |
| • Spread over CANSIM V39062 | + 0.80% | + 0.65% | + 0.78% | + 0.62% |

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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.