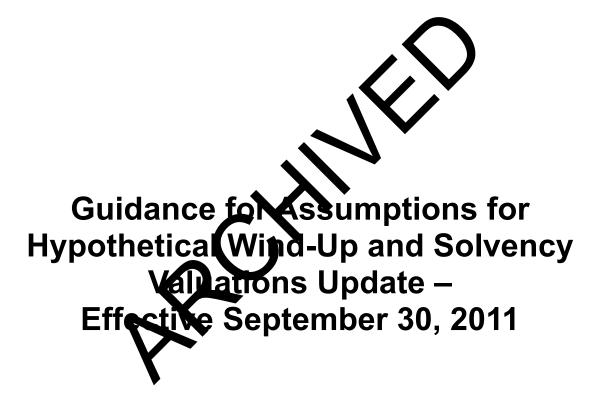


Institut canadien des actuaires

Educational Note Supplement



Document 211115

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Voir au-delà du risque

Memorandum

To:	All Pension Actuaries			
From:	Gavin Benjamin, Chair Committee on Pension Plan Financial Reporting			
Date:	November 17, 2011			
Subject:	Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2011 Document 211115			

The most recent guidance from the Committee on Pension Plan ncial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solven valuations was provided in an educational note supplement dated September 8, 2011, xas ba ed on a review of data rich collected in the second and early third quarters of 201 concluded that there was The rev not sufficient evidence to warrant changing the gu e provided in the June 7, 2011 educational note supplement. This guidance conclude aluations with effective dates on tha. and after March 31, 2011, an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity would be deternined as unadjusted yield on GoC long-term bonds (CANSIM series V39062) increases arity metically by 70 bps, in conjunction with the UP94 mortality table with generational pro tion. This guidance applies to both immediate and deferred pensions and also appl regardless of the overall size of a group annuity purchase.

Methodology

The September 8, 2017 guilance as to estimated purchase costs for non-indexed group annuities was partially easer on quotes provided by six insurance companies on illustrative group annuities using pricing conditions as at June 30, 2011, and supplemented by data on actual group annuity per bases during the second and early third quarters of 2011 provided by certain actuarial compating firms.

Analysis

In an effort to continue to monitor group annuity pricing, the PPFRC obtained illustrative quotes on a similar basis to those obtained at June 30, 2011, but based on pricing conditions as at September 30, 2011. In addition, the PPFRC obtained limited data on the pricing of actual group annuity purchases in the third quarter of 2011 from certain actuarial consulting firms.

The illustrative non-indexed quotations at June 30, 2011 and September 30, 2011 may be summarized as follows:

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AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING UP94 GENERATIONAL MORTALITY TABLES)						
	Large Purchase		Small Purchase			
	30/06/2011	30/09/2011	30/06/2011	30/09/2011		
Retirees						
• Discount rate	4.05%	3.57%	4.12%	3.56%		
• Spread over CANSIM V39062	+0.56%	+0.89%	+ 0.63%	+0.88%		
Deferred vesteds						
• Discount rate	4.14%	3.59%	4.11%	3.52%		
• Spread over CANSIM V39062	+0.65%	+ 0.91%	+ 0.62%	+0.84%		

The illustrative quotes suggest that an appropriate discount rate for estimating the cost of purchasing non-indexed group annuities be determined as the unadjusted yield on GoC long-term bonds (CANSIM V39062) increased arithmetically by 90 bps, in conjunction with the UP94 mortality table with generational projection.

The actual group annuity purchase data obtained by the PPFPe Touthe third quarter of 2011 were very limited. Furthermore, most of the group annuity purchases occurred during the financial market turmoil that commenced in early August, and did not display any credible pattern. Consequently, the PPFRC concluded that the illustrative quotes provided a better indicator of annuity prices going forward than the actual annuity pricing data.

As a result, the PPFRC concluded that, effective reptender 30, 2011, a revision to the guidance contained in the September 8, 2011 education. I note supplement is appropriate.

Guidance for Non-Indexed Pensions

FRC has concluded that, for valuations with Based on the analysis described abo effective dates on and after Septer 2011, an appropriate discount rate for estimating the cost of purchasing a non-index d group an uity would be determined as the unadjusted yield on GoC long-term bonds (CA ISIM s ties V39062) increased arithmetically by 90 bps, in conjunction with the UP able with generational projection. This guidance applies rtan m to both immediate and defe pensions and also applies regardless of the overall size of a group annuity purchase.

The revised guidance is spreads applies to valuations with effective dates on and after September 30, 2011 p to December 30, 2011, pending any further guidance or other evidence of change in annuity picing.

Example

As at September 30, 2011, the unadjusted CANSIM V39062 rate was 2.68%. This rate would form the basis for developing an appropriate underlying discount rate for valuations of non-indexed group annuities with effective dates of September 30, 2011. Prior to rounding, an applicable underlying discount rate would then be determined as 2.68% + 0.90% = 3.58%.

Validity of May 2011 Educational Note

With the exception of the revisions to the guidance contained in this memo, and the update of the recommended mortality table used to estimate the cost of purchasing indexed annuities provided in the June 7, 2011 guidance, actuaries would continue to reference the May 10, 2011 <u>educational note</u> for guidance with respect to the selection of assumptions for hypothetical wind-up and solvency valuations with effective dates between September 30, 2011 and December 30, 2011.